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# A REPORT

ON

# SUPERVISION OF CORPORATIONS AND RELATED BUSINESS

BY

MAURICE H. ROBINSON, PH. D.
PROFESSOR OF INDUSTRY AND TRANSPORTATION
UNIVERSITY OF ILLINOIS

PREPARED FOR THE

EFFICIENCY AND ECONOMY COMMITTEE

CREATED UNDER THE AUTHORITY OF THE
FORTY-EIGHTH GENERAL ASSEMBLY

STATE OF ILLINOIS

1914

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# CONTENTS

Page

INTRODUCTION. . . . . 5-7

I. SUPERVISION BY THE SECRETARY OF STATE. . . . . 8-20
- Historical Summary. . . . . 8
- Supervision under the Present Law. . . . . 9
- The Certification of Domestic Corporations. . . . . 9
- The Admission of Foreign Corporations. . . . . 13
- Supervision of Corporations after Incorporation. . . . . 15
  - Annual Reports. . . . . 15
  - Anti-trust Affidavits. . . . . 17
  - Interrogatories. . . . . 18
- Financial Summary. . . . . 19

II. INSURANCE DEPARTMENT. . . . . 21-31
- From 1885 to 1893. . . . . 21
  - Supplementary Legislation. . . . . 22
- Supervision by Insurance Superintendent. . . . . 23
  - New Companies. . . . . 24
  - Companies from other jurisdictions. . . . . 24
  - Annual Reports. . . . . 25
  - Examinations. . . . . 25
  - Publications. . . . . 27
  - Official Staff. . . . . 27
  - Financial Summary. . . . . 27
- State Fire Marshal . . . . . 29
  - Financial Statement . . . . . 30
  - Proposed Building Commissioner . . . . . 30

III. SUPERVISION BY THE AUDITOR OF ACCOUNTS . . . . . 32-38
- The Regulation of Banks . . . . . 32
  - Incorporation . . . . . 32
  - Examinations . . . . . 33
- Trust Companies . . . . . 34
  - Examinations and Reports . . . . . 35
- Pawners' Societies and Wage Loan Corporations . . . . . 35
- Building and Loan Associations . . . . . 35
  - Incorporation . . . . . 36
  - Annual Report . . . . . 36
  - Examinations . . . . . 36
  - Custodian . . . . . 36
  - Foreign Building and Loan Associations . . . . . 37

Title Guarantee Companies ..... 37
Financial Summary ..... 37

IV. STATE PUBLIC UTILITIES COMMISSION ..... 39-48
Introduction .. ..... 39
Constitution of 1870 ..... 39
Railroad and Warehouse Commission ..... 39
Local Utilities before 1913 ..... 40
Public Utility Law of 1913 ..... 40
Public Utilities Defined ..... 41
Incorporation, franchises and licenses ..... 41
Reports and Accounts ..... 42
Capitalization and Intercorporate Relations ..... 42
Control over rates and service ..... 43
Methods of Procedure ..... 44
Appeals and Penalties ..... 44
Staff and Organization ..... 45
Grain inspection ..... 46

V. CORPORATION COMMISSIONS IN OTHER STATES ..... 49-50
Virginia Corporation Commission ..... 49
North Carolina Corporation Commission ..... 50

VI. SUMMARY AND RECOMMENDATIONS ..... 51-56
Recommendations .. ..... 51

# STATE SUPERVISION OF CORPORATIONS

By Professor Maurice H. Robinson, University of Illinois.

## INTRODUCTION.

Business corporations and businesses often conducted by corporations are under the jurisdiction of four separate State officials, namely, the Secretary of State, the Auditor of Public Accounts, the Insurance Superintendent, and the State Public Utilities Commission.

The Secretary of State has general supervision over the incorporation of all corporations not otherwise provided for. His authority is contained in the general law and a series of supplementary laws relating to special classes of corporations.

(a) Corporations under the general law:

The general law provides for the incorporation of two classes based upon whether the corporations formed are for pecuniary profit or not.

(1) Corporations for pecuniary profit:

Under this law all corporations that issue stock and divide profits in the form of dividends are included except banking, insurance, real estate brokerage, the operation of railroads and the business of loaning money. In this class are included horse and dummy railroads and organizations for the purchase and sale of real estate for burial purposes only, title guarantee companies and trust companies. The general provision is that they must be formed for some lawful purpose.

(2) Corporations not for pecuniary profit:

Under this section of the Act are included all societies, associations and corporations formed for any lawful purpose where the object is not to make a pecuniary profit to be divided among the members. Corporations under this section of the Act issue no capital stock and are exempted from making annual or other reports to State officers.

(b) Corporations under separate Acts:

(1) Cemetery associations: Any six or more persons may organize as a cemetery association by filing with the Secretary of State a certificate of organization. Such organizations are required to make a financial report to the county court once in every three years.

(2) Co-operative associations are formed in the same general way as corporations for pecuniary profit. No individual may subscribe to more than one share and no one except subscribers may work for the association. No annual or other reports are required.

(3) Educational institutions and free public libraries are incorporated by filing a statement with the Secretary of State. If the statement is found satisfactory a certificate of incorporation is issued which must be recorded in the usual way. Such corporations are

required to make annual reports to the Governor, showing their assets and investments in detail. Changes in the organization of such corporations are made by filing a statement of the changes desired when the proper certificate is issued authorizing the same. Private educational institutions, whether incorporated or unincorporated, make reports to the Superintendent of Public Instruction.

(4) Pawners' societies and wage loan corporations are incorporated by the Secretary of State under the general law. Such corporations report annually to the Auditor of Public Accounts.

(5) Railroads are incorporated by the Secretary of State on the filing of a statement of articles of association containing the details of the organization, including name, purpose, officers, location, capital stock, etc. If the organization is found to be in accordance with the law a certificate of incorporation is issued which is filed with the county recorder. Railroad corporations report annually to the Auditor of Public Accounts, and also to the Public Utilities Commission.

The Auditor of Public Accounts has general supervision over banks and banking institutions, trust companies, title guarantee companies and building and loan associations; and receives reports from pawners' societies. He also receives reports from corporations and railroads for purposes of assessment.

(a) Banks receive their charter from the Auditor of Public Accounts directly. The procedure follows that of the general corporation law. They are required to make quarterly reports to the Auditor and are subject to periodic examinations.

(b) Building and loan associations: The procedure is similar to that provided for general corporations. The authority for soliciting subscriptions must first be obtained and when the organization is complete a report is submitted and the certificate of complete organization issued. Foreign building and loan associations are required to obtain a license from the Auditor. They are required to make annual reports to the Auditor and are subject to periodic examinations.

(c) Trust companies are incorporated by the Secretary of State but report regularly to the Auditor under the same general rules which apply to banking corporations.

(d) Pawners' societies and wage loan corporations are incorporated by the Secretary of State but make their reports to the Auditor of Public Accounts annually.

All insurance companies, except assessment life and accident and title guarantee companies, are chartered by the Insurance Superintendent. Corporations for furnishing life or accident insurance on the assessment plan must submit their plan of organization, first to the Insurance Superintendent; if he approves of the plan he forwards it to the Secretary of State who then issues a certificate of incorporation. The same process is followed in making changes in the corporation. All insurance companies, except title guarantee companies, are supervised by the Insurance Superintendent.

The State Public Utilities Commission established by an Act of 1913 is authorized and required to approve all issues of capital stock, bonds and other securities issued by public utility companies. A corporation desiring to operate a public utility obtains its charter from the Secretary of State, but must secure the approval of the Public Utilities Commission before issuing securities. Annual reports in the form prescribed by the Public Utilities Commission are made directly to the said commission. The work of the Public Utilities Commission in supervising the particular class of corporations under their jurisdiction will be described in detail in another section of the report.



The Attorney General as the legal branch of the State government may be called upon by the various State officers to give his opinion upon points of law involved in the incorporation and supervision of various classes of corporations. In the case of insurance corporations, however, it is held that as a result of Paragraph 5 of Section 3 of the Insurance Act that the Attorney General has no direct supervision over the legal work of the insurance department. Accordingly a direct appropriation is made to the insurance department and the insurance department has a legal department of its own.

The Board of Administration has jurisdiction over the licensing, incorporation and supervision of associations for dependent, defective and delinquent children.

## I. SUPERVISION BY THE SECRETARY OF STATE.

*Historical Summary.*

Before the Constitution of 1848 was adopted corporations were formed by special Act of the Legislature. The Constitution of 1848, Article X, provides that corporations not possessing banking powers or privileges may be formed under general laws except in cases where in the judgment of the Assembly the objects of the corporation cannot be formed except by a special Act. The constitution also provides that the General Assembly shall encourage internal improvements by passing liberal general laws for the incorporation of companies for such purposes.

The first general corporations Act in Illinois was passed in 1849.[1] This Act followed the general method in vogue in other states at that time. It provided that any three or more persons desiring to form a corporation for manufacturing, agricultural, mining or mechanical purposes must file a certificate duly acknowledged in the office of the county clerk and a duplicate in the office of the Secretary of State. The certificate must contain the usual details in regard to the name of the business, amount of capital stock, term, shares, names of directors and the location where its principal business was to be carried on. When the certificate was filed the persons signing the certificate and other subscribers became a body corporate with all the usual rights and privileges. Immediately after filing the certificate the trustees were authorized to call in subscriptions to the capital stock. Payments for capital stock were required to be made in money, and no loan on the capital stock certificates was permitted without thereby making the directors personally liable for the debts of the corporation to the extent of such loans; and when the total amount of subscriptions was paid in, the president and a majority of the trustees were required to file with the county clerk a statement to that effect.

Corporations under the Act of 1849 were not required to report to the Secretary of State. Instead it was provided that "each company shall annually within twenty (20) days from the first of April make a report which shall be published in a newspaper published nearest the place where the business of said company is carried on, which shall state the amount of the capital stock and the proportion actually paid and the amount of existing debts." This report was required to be signed by the president and a majority of the trustees, verified under oath of the president and secretary and filed in the office of the clerk of the county. For failure to conform to this requirement the trustees were jointly and separately liable for all its debts then existing or contracted before such report was made.

[1]Session Laws, 1849, p. 87.



Several additional acts supplementary to the general corporation act were passed during the period from 1849 to 1872, when the present corporation act was enacted. The important acts are as follows:

An Act to authorize the formation of corporate companies, for the purpose of mining and transportation by a general law; passed June 22, 1852.

An Act to authorize the formation of corporations for the purpose of manufacturing, mining, mechanical or chemical businesses; passed February 18, 1857.

Amendments to the above acts were passed in 1857, 1865, and 1867. The first amendment related to the collection of unpaid subscriptions and the other amendments extended the acts to permit the formation of corporations for the making of beet sugar and the mining and refining of oils.

In all of the additional acts and the amendments thereto the same general method of incorporation and supervision established in 1849 was maintained without any important change.

*Supervision Under the Present Law.*

Notwithstanding the fact that the Constitution of 1848 provided that corporations must be formed under the general law, except where the purposes desired could not be obtained under such an act, the Legislature still continued to grant special charters to corporations in considerable numbers and in connection with the legislative granting of charters charges of corruption became so pronounced and so frequent and in some cases the charges were so substantially sustained that the Constitution of 1870, Article XI, provided as follows: "No corporation shall be created by special laws or its charter extended, changed or amended, except for charitable, educational, penal or reformatory purposes which are to be and remain under the patronage and control of the State, but the General Assembly shall provide by general laws for the organization of all corporations hereafter to be created." The Constitution also provided that all existing corporations were to cease their existence if not in operation within ten (10) days from the date that the Constitution should go into effect. It also provided for the establishment of the cumulative voting system and that no street railway company might be given authority to operate a railway without the consent of the town wherein it was operated.

Immediately after the adoption of the present Constitution the corporation law of the State was revised and the present method of certification and control of corporations was enacted into law. As previously stated the general office for the certification of corporations is that of the Secretary of State. For purposes of administration there is established in the Secretary of State's office a department of corporations and the department of corporations is divided into two divisions:

The certification of domestic corporations;

Licensing of foreign corporations, the supervision of the anti-trust law through affidavits and the securing and filing of annual reports.

*The Certification of Domestic Corporations.*

Domestic corporations are divided into two classes, those for pecuniary profit and those not for pecuniary profit. The great majority

of all our corporations are included in the first class. Consequently the chief attention will be given to the work of the Secretary of State's office in their supervision.

Whenever any group of persons desire to form a corporation under the general law a statement is made to the Secretary of State on a blank which is furnished by that office for the purpose of facilitating conformity to the law. The statement must be made by at least three persons and not more than seven, stating that they desire to form a corporation unde rthe Act concerning corporations approved April 18, 1872, and all acts amendatory. The statement must include the following information:

The name of the corporation;
The object for which it is formed;
The capital stock;
The number of shares;
The location of the principal office in Illinois;
The duration of the corporation.

This application is signed and acknowledged before some officer in the manner provided for the acknowledgement of deeds and then submitted to the Secretary of State. Upon its receipt it is sent to the department for the certification of domestic corporations and there examined to see whether it conforms to the law. In the examination the important points are the following:

Are the fees correct?

Is the corporation formed for a lawful object? If the object stated is not lawful then the application will be returned with a statement calling attention to the fact. The statement then may be revised, returned and the process of examination continued.

Is the name available? In this connection attention should be called to the fact that corporations may go out of business without sending the proper information to the Secretary of State's office and thus a name which might have been available for a new corporation may not be approved by the department although the original has long been out of business.

If the statement is found to be in conformity with the law the Secretary of State issues a license to the subscribers authorizing them to solicit subscriptions to the capital stock. When the subscriptions have been secured to the entire amount of the capital stock authorized a meeting of the subscribers is held; directors are elected and the subscriptions are called in to the extent of at least fifty per cent. After this the commissioners make out a report containing:

The subscription list.
The record of the meeting.
A list of the officers and a statement showing to what extent the stock has been collected and how the stock was paid for.

The report is examined by the department of corporations in the Secretary of State's office and if found to be in conformity to the law a certificate is issued. The certificate must be filed in the county recorder's office and operations begun within two years or the license issued by the Secretary of State is deemed to be revoked and all proceedings in connection therewith are void.

It will be noticed that the Act of 1872 provided an entirely new method of procedure in the formation of corporations under the State law. Persons desiring to form such organizations must first



obtain permission from the Secretary of State before they could solicit subscriptions to the capital stock. The object of this provision, which at the present time is in force in only one other state, namely, South Carolina, is to safe-guard the investor by supervising the work of the incorporators during the period of promotion. The Secretary of State is required under the law to examine the statement submitted to see:

Whether it is for a lawful purpose.
Whether the name is distinctive.

In this connection he has authority to propound interrogatories to ascertain the true object. Although he is not specifically authorized to refuse a license to promoters who are desirous of soliciting subscriptions for a corporation with a lawful purpose on the face, but whose real object is a fraudulent one, the law is sufficiently broad to give the Secretary of State wide discretionary powers. Under the laws of the State monopolies are prohibited; hence the Secretary of State would be exceeding his powers if he should knowingly approve of a project in the corporate form whose purpose was to form a monopoly in the manufacture of a single line of goods. Corporations are not authorized to own shares of stock in other corporations. Consequently any project of this sort would be refused a license by the Secretary of State. Corporations for the purpose of the purchase and sale of real estate are not authorized under the Illinois law; hence the Secretary of State would refuse a license to a corporation organized for such a purpose.

The provision of the law requiring a license to solicit subscriptions in order to safe-guard the investor is supplemented by further provisions relating to the issuance of the capital stock. After the promoters receive the license they proceed to solicit subscriptions to the capital stock to the entire amount authorized by law. When the entire amount is subscribed they call a meeting of the subscribers, organize and elect directors, and collect at least one-half of the subscriptions and send in a report to the Secretary of State as above outlined. The Secretary of State then makes an examination of the report to determine whether the commissioners have conformed to the law. Under the Act of 1849, capital stock must be paid for in money. Under the Act of 1872, capital stock may be paid for either in cash or property. If the latter method is followed the property must be appraised by the commissioners and the fair cash value of the same given in the report. The purpose of this provision of the law is evidently to secure full value for stock; that is to prevent stock watering by the distribution of stock for overvalued property. The authority of the Secretary of State to refuse a license to corporations that have issued stock for overvalued property seems never to have been tested by the courts. It is evident from an examination of the law that the Secretary of State is not only authorized to refuse charters to such corporations but, moreover, he is under obligations even to refuse to issue certificates to such corporations. Nevertheless no attempts seem to have been made in the past either to prevent stock watering under the Illinois law or to test the authority of the Secre-

tary of State in this particular. In other words no attempt is made to go beyond the returns and if the record is in conformity with the law on its face the certificate is issued as a matter of course.

The corporation law of Illinois in the points above stated is almost unique in this country. With only slight modifications it would rank with those in England and Germany in the protection of legitimate investors. The enforcement of the law in this respect would of course add considerable to the expense. It would require a force of experts who would necessarily make direct examinations as in the case of the examinations of banks and insurance companies. The results, however, of such an administration of the law in the development of sound investment and increased business prosperity would undoubtedly more than justify the additional expense.

While the law relating to the formation and certification of corporations is admirably adapted to protect legitimate investors, there are ways of escape for the shrewd corporation official which practically annul the evident purpose of the law. It will be noticed that the provisions above cited apply only to original incorporations. There are no similar safeguards for the increase of capital stock. Consequently any group of incorporators desirous of evading the spirit of the law will provide in the first instance for a corporation with a nominal capital of say $2,500, all of which is subscribed and one-half paid in cash. The certificate is then obtained. The corporation then applies for authority to increase the capital stock to any amount, say $10,000,000. A meeting of the stockholders is called with proper notice, the project submitted to a vote and if two-thirds of all the stock authorized votes in favor, a certificate verified by the affadavit of the president and secretary under the corporate seal is filed with the Secretary of State, a copy in the office of the county recorder and notice of same is published in local newspapers. The changes then are in legal effect. The Secretary of State apparently has no supervisory powers over the issuance of the capital stock after the corporation has once been formed. The corporation now has $10,000,000 fully paid capital stock of which $9,997,500 is authorized under the amended charter and may be issued by authority of the stockholders and directors for any property necessary to the business or for services at any price. The only provision in the law which might in any way interfere is that limiting the amount of indebtedness to the amount of capital stock—capital stock in this sense meaning corporate assets—,but even in this case the Secretary of State has no authority to interfere. Since the law provides an easy legal escape from the provisions relating to formation by incorporating for a small amount and afterwards increasing the capital stock, the strict enforcement of the Act during the period of promotion would have the effect of forcing corporations desiring to issue inflated capital stock to provide for a minimum capitalization and later take advantage of the liberal laws for the increase of the capital stock.

The law should be amended by throwing the same safeguards around an increase in capital stock that are provided for original issues.



Corporations not for pecuniary profit are authorized by the Secretary of State; but apparently the law does not intend that he shall exercise supervisory functions over their formation except to see that they conform to the general law. As no reports are required there is no record of the organizations of this kind that are actually in existence except the record published in the annual report of the Secretary of State at the time of their authorization.

*The Admission of Foreign Corporations.*

Until 1897 there were no administrative regulations governing the admission and operation of foreign corporations in the State except an Act of 1875 authorizing foreign corporations to invest and loan money in Illinois provided it was so authorized by its charter.[2] If any such corporation should acquire real estate as a result of such loans it must offer the same at auction annually and sell whenever the price realized was equal to the claim held by the said corporation.

Administrative control of foreign corporations dates from May 26, 1897, when the first Act governing foreign corporations in Illinois was passed. The Act of 1897 required foreign corporations to obtain a license from the Secretary of State as a prerequisite to doing business in Illinois. Corporations desiring to do business in the State were required to file an application with the Secretary of State stating:

The kind of business;
The amount of capital stock;
What other states the corporation operates in;
The proportion of capital stock represented in Illinois by its property located in this State and its business transacted herein;
Amount paid on its capital stock;
The property and assets and the value thereof that will be employed in Illinois;
The disposition of capital stock subscribed and not paid for;
Names and residences of all its stock holders;
The names of officers and directors;
Principal office in Illinois;
Name of its attorney in fact who will accept services for the corporation in all suits brought against the corporation in this State.

The Secretary of State is authorized to prescribe the form of the application and propound such interrogatories in regard to the character of the business, etc., as he deems necessary.

This application together with a certified copy of the corporate charter and the answers to the interrogatories, if any, is filed in the office of the Secretary of State. The Secretary of State then examines the papers and if acceptable he issues a certified copy of all the papers as a certificate of authority to do business in this State. Foreign corporations thus admitted may not, however, exercise any powers not given to domestic corporations.

As a license fee such corporations are required to pay to the Secretary of State for the use of the State such fees as are exacted of domestic corporations, upon the proportion of stock represented in Illinois.

[2]Hurd's Revised Statutes, 1913, p. 585.

This Act governing the admission of foreign corporations into the State of Illinois has a double purpose:

To secure a record of all foreign corporations doing business in the State and the name of the proper officer to serve process upon in case of violation of the State law.

To collect from all foreign corporations the same franchise fees as are assessed upon domestic corporations.

In neither of these two Acts is the regulation of foreign corporations entirely satisfactory. There seems to be no adequate method of determining whether all foreign corporations actually doing business in the State file applications and secure licenses as provided by law; and of those corporations that do apply, the process of determining the amount of capital stock upon which the franchise tax is to be paid is untrustworthy and inefficient.

The law is partly at fault for this difficulty. It states that the fee shall be paid upon the proportion of capital stock represented by the corporation's property and business in the State. It is of course evident that a foreign corporation may have a small investment and a large business or a large investment and a small business in the State, depending partly upon the meaning given to the word "business" and partly upon the meaning given to the nature of the particular business actually carried on. The word "business" may mean either the value of goods manufactured or it may mean the total gross sales or the net revenue or some variation of either one of these items. The property invested in this State is small with relation to the sales where office space is rented or leased and sales are made on commission or where goods are bought outright and the period of turn-over is short. The Secretary of State has attempted to solve this problem of determining the proportion of stock represented in the State by a method that aims to combine the two criteria, namely business and property, by the following method:

The sum of the property plus the business in Illinois is used as a numerator and the sum of the same items in all states is used as a denominator. The reduction of this fraction to a per cent gives the proportion of the capital stock represented in this State. Thus, a company incorporated under the New Jersey law with $250,000 capital stock invests $5,000 in Illinois and does a business of $75,000, presumably in gross sales from its Illinois business. Its entire property is valued at $10,000 and its total business at $150,000, presumably again gross sales. Then $5,000 plus $75,000 divided by $10,000 plus $150,000 equals one-half or fifty per cent. Fifty per cent of $250,000 equals $125,000, the amount upon which the fee must be paid. It is evident from an examination of this method that it must lead, in many cases, to gross absurdities and in a number of cases it is not a fair criterion of the amount of capital stock upon which a foreign corporation should pay a franchise tax for the privilege of doing business within this State.



SUPERVISION OF CORPORATIONS AFTER INCORPORATION.

After incorporation, State supervision over corporations chartered under the general law, where the supervision is under the Secretary of State, is effected by means of annual reports, anti-trust affidavits and interrogatories.

*Annual Reports.*

The general law governing annual reports was passed in 1901. It provides that "every incorporated company other than railroad, banking, building and loan and insurance companies, religious corporations and corporations not organized for pecuniary profit existing by virtue of any general or special law or hereafter organized by virtue of any law of this State shall annually report to the Secretary of State between the first day of February and the first day of March on the following points:

The location of its principal office;
The names of its officers;
The expiration of their terms of office;
The kind of business engaged in, if any;
Whether it is pursuing an active business under its charter.

Similar reports are required of foreign corporations admitted to do business in this State (under section 3 of the Act concerning foreign corporations).

The Secretary of State in conformity to the statutes sends to each corporation liable under the Act on or before January 15 in each year a blank form properly arranged for collecting the required information. This blank is accompanied by a notice calling attention to the statute and giving the necessary information in regard to the penalties for non-compliance. Where for any reason the records of the Secretary of State do not disclose the street and number of the corporations located in the larger cities, or their address at all, without reference to location, notice of such report may be given by advertising in certain newspapers specified in the law.

The reports received in answer to the above inquiry are filed and preserved in the office indefinitely. On or after July 1, annually, a certified list of those corporations that have complied with the law is arranged in printed form and sent to each recorder of deeds in the several counties of the State, and to a certain extent are distributed to interested parties upon request. This list of certified corporations shows the four following groups all alphabetically arranged:

All Illinois corporations that have complied with the requirements of the law and at the time of publication are in good and regular standing.

All Illinois corporations that have failed to file their annual report at the proper time and whose charters have been cancelled as of March 31 of the current year.

All foreign corporations which have authority to transact business in the State and have filed an annual report for the current year.

All foreign corporations previously authorized to transact business in the State that have failed to file an annual report and whose authority to do business has therefore been cancelled.

The annual report of all corporations, whether domestic or foreign, has a two-fold purpose.

To furnish a list of those corporations that are actually engaged in active business under their respective charters and

To facilitate the taxation of corporations by providing information to the tax officers as to their existence and location. The object of this provision of the corporation Act has been nullified to a large extent by certain decisions of the Supreme Court. The Act provided that failure to make the annual report and pay the fee for the filing of the same should be prima facie evidence that the corporations failing to do so were out of business and should work a forfeiture of their respective charters. In Spreyne vs. Garfield Lodge (117 Ill. App. 253), the Court held that the failure of a corporation to file an annual report did not of itself work a forfeiture of its charter but was simply prima facie evidence of non-user, which might be the basis of a suit to forfeit the charter. Later in People vs. Rose (207 Ill. p. 352, 69 N. E. 762), the court held, explaining its position more fully, as follows: "The thing that works forfeiture of the corporation is the fact of non-user which can be finally determined by a court of competent jurisdiction—Bruffet vs. Great Western Railway Company (25 Ill. 353), Baker vs. Administrator of Backus (32 Ill. 79), Board of Education vs. Bakewell (122 Ill. 339, 1 N. E. 378), and the cancellation which the Secretary of State is required to enter upon the records of his office would in such proceedings make a prima facie case for the people. If the corporation is in fact engaged in active business and fails to make the report it is not by reason of that failure deprived of its charter but may in a suit brought against it show the fact and thereby defeat the proceedings....." The effect of the Act is simply to make a failure to report as required prima facie evidence and the clause providing that failure to report and pay the fee therefor shall be prima facie evidence that said corporation is out of business and shall work a forfeiture of the charter of such corporation was merely intended to be a statement of the effect of a condition, namely, non-user, of which condition the failure is made prima facie evidence. This statute did not authorize the Secretary of State to declare absolute forfeiture of charters of defaulting corporations but merely established a rule of evidence and is a lawful exercise of legislative powers. As a result of this ruling of the Supreme Court corporations regularly chartered under the Act still continue in active business for years. The law provides that such corporations may be re-instated at any time within one year from their default on payment of a fee of $20 and filing a statement showing: (1) That they are still engaged in active business under their charter, and (2) the facts called for in section 2 of the Act. In the case of the People vs. Rose, already referred to, the courts in discussing the status of corporations failing to report at the required date held that while every corporation thus situated had the right of re-instatement within one year it was in that case not necessary to discuss their rights to be re-instated after the period named in the law had lapsed.



As a matter of fact the Secretary of State re-instates corporations no matter how long a period has elapsed since the corporation rendered its annual report, on payment of all past due fees and the penalty of twenty dollars required in the Act.

This practice is justified by the department of state on the ground that since the failure to report does not work a forfeiture of the charter, as held by the Supreme Court, but is merely prima facie evidence of non-user, it is proper to re-instate after presenting satisfactory evidence of being active under their charter.

*Anti-trust Affidavits*: By an Act of June 11, 1891, corporations operating in Illinois, whether domestic or foreign, are prohibited from entering into, or becoming a part of, any trust, pool, combination, federation, etc., with any other corporation or any person or association of persons for the purpose of fixing prices, limiting production, etc. In the cases arising under this act the courts have held uniformly that "Any corporation doing business in Illinois is amenable to the terms of the Act of 1891 wherever it was organized and whether or not it has been authorized to do business in Illinois." (Chicago, W. and V. Coal Company vs. People, 214 Illinois." 421, 73 N. E. 770, affirming 114 Ill. App. 76.) "Citizens of Illinois can not evade the laws of Illinois passed against trusts and combines and defeat the public policy of the state by going into a foreign state and chartering a corporation to do business in this State in violation of its laws. Where these foreign companies come into the State to do business they must conform to the laws and public policy of this State." (Harding vs. American Glucose Company, 182 Ill. 551, 55 N. E. 577.)

While in general the enforcement of the anti-trust Act of Illinois is entrusted to the Attorney-General and the State's attorneys in the several jurisdictions the Legislature seems to have acted upon the supposition that the Secretary of State might be of assistance in gathering information on this subject; and to this end it is made the duty of the Secretary of State: (1) to send out a letter of inquiry annually on or before the first day of September, addressed to the president, secretary, or treasurer of every incorporated company doing business in the state, for the purpose of ascertaining whether such corporations are conforming to the anti-trust law. With this letter of inquiry is a blank form in the form of an affidavit which the proper officer is expected to fill out under oath stating that the said corporation is not at the given date and has not been since the passage of the Act a member of any pool, trust or combine as specified in the Act; (2) to send out a similar inquiry at any time to any particular corporation upon specific evidence that such corporation has entered into any trust or combination in violation of the Act. Wherever any corporation fails to answer the inquiry within 30 days from date when same was mailed, the Secretary of State is required to certify the said corporation to the Attorney-General who shall then direct the State's Attorney in the county wherein said corporation is located who shall proceed against the said corporation to recover a fine of fifty dollars per day imposed by the Act; or the Attorney-General may proceed in any court of law or chancery to forfeit the charter of any Illinois cor-

poration or revoke the right to do business in the State of any foreign corporation. For filing the affidavit the Secretary of State is authorized to impose a fee of one dollar and the law provides a special fund of Six thousand Dollars per annum to assist in its enforcement.

As a part of the machinery of the State government for regulating corporations, the anti-trust affidavit is as near an absolute failure as it is possible to find. Indeed it is regarded by the department of state as a source of revenue pure and simple rather than a regulative measure. It is probable that the fee of one dollar pays a little more than the cost of collecting the same. The amount, however, is too small to be of any significance in the tax scheme. This part of the law should be repealed. If, however, it is to be retained it should be, as suggested by members of the department, consolidated with and made a part of the annual report of corporations, thus saving both the corporations and the State the unnecessary expense of two returns each year.

*Interrogatories:* The use of the interrogatory letter is authorized for both domestic corporations and foreign corporations. In the case of domestic corporations the Secretary of State may propound such interrogatories as he shall deem necessary to ascertain the true objects for which the said corporation is seeking a charter. The Secretary of State makes use of his authority in this particular whenever the object is not clearly stated or where it is evident that the true object is not clearly disclosed in the statement made by the applicant; and since the courts have generally held that the articles of incorporation themselves are the criterion by which to ascertain the purpose for which any corporation is formed, the powers of the Secretary of State in this particular is of great practical value.

In the case of foreign corporations interrogatories may be used at any time in the discretion of the Secretary of State. He is authorized by section 5 of the Act concerning foreign corporations to propound such interrogatories as he may think best in order to ascertain: (1) the character of the business which the said corporation is transacting; (2) the location of the business; (3) the names and residence of its officers and directors; (4) the amount of capital paid in and what disposition has been made of the capital stock subscribed for not paid in.

If such interrogatories are not answered within ten days of the receipt thereof the Secretary of State may revoke the charter of the said corporation by filing with the charter of the corporation a certificate of revocation and publishing a notice in a newspaper of a general circulation. If the interrogatories when answered disclose any violation of the law the Secretary of State is required to notify the Attorney-General of the fact.

The principal object of the interrogatory letter seems to be to secure information as to the proportion of the property and business which the foreign corporation has in the State of Illinois in order that the fee may be properly assessed.



*Financial Summary.*

*Revenue.* The revenue from the corporation department connected with the Secretary of State's office may be found in the report of that officer. For the two years October 1, 1910 to September 30, 1912 the revenue collected and turned over to the State treasury was as follows:

| | |
|---|---|
| Domestic corporations | $732,003.15 |
| Foreign corporations | 99,413.97 |
| Annual reports of corporations | 31,562.50 |
| Reinstatements of corporations | 13,754.20 |
| Anti-trust affidavits | 35,129.40 |
| Total | $911,863.22 |
| Refund—charters not granted and overpayments | 17,857.19 |
| Receipts less refunds | $894,006.03 |

The revenue from annual reports and anti-trust affidavits is not shown separately for domestic and foreign corporations; hence it is impossible to determine the relative proportion paid by each class. Refunds are made to corporations authorized to solicit subscriptions wherever the project fails and it is shown satisfactorily to the Secretary of State that there was a reasonable excuse for the failure. There is no authorization for this practice under the law and its legality has never been passed upon by the courts.

For the two years from October 1, 1912 to September 30, 1914, the receipts paid into the general revenue fund of the State treasury from the Secretary of State were as follows:

| | |
|---|---|
| 1912-13 | $512,586.42 |
| 1913-14 | 613,246.42 |
| Total | $1,125,832.84 |

*Expenditures.* It is impossible to ascertain definitely the annual expense connected with the supervision of corporations by the Secretary of State. The appropriation contains certain items for services distinctly connected with the office for each of the two years beginning July 1, 1913, as follows:

| | |
|---|---|
| Salary Chief Corporation Clerk | $2,400 |
| Salary Corporation Clerk | 1,800 |
| Salary Corporation Clerk | 1,500 |
| Salary Corporation Clerk | 1,500 |
| Salary Anti-trust Clerk | 2,100 |
| Salary Anti-trust Clerk | 1,200 |
| Salary Anti-trust Clerk | 1,800 |
| Two (2) Anti-trust Clerks @ $1,100 | 2,200 |
| Salary Stenographer | 1,200 |
| Salary Stenographers, 2 @ $840.00 | 1,680 |
| Expenses Corporation Department | 1,500 |
| Expenses Foreign Corporation Department | 1,000 |

In addition to the above the law provides for an annual appropriation of six thousand dollars ($6,000) for the enforcement of the anti-trust Act for the two years ending June, 1913. The appropriations in 1911 for the corporation department were as follows:

| | |
|---|---|
| Domestic Corporation Department | $ 5,000 |
| Enforcing Foreign Corporations Act | 10,000 |

The expense of printing and binding the list of corporations, the report of the Secretary of State so far as it relates to corporations, and for stationery and supplies is included under the general contract and not being shown separately the total amount is impossible even to approximate.

From the above summary it would appear that the total expense incurred by the Secretary of State's office is somewhat over $25,000 a year. It is impossible to tell how much more than this.

## II. THE INSURANCE DEPARTMENT.

State control over insurance in Illinois dates from 1855 and may be divided into two periods: (1) the period 1855-1893; supervision under the Auditor of Public Accounts; (2) the period 1893—date; supervision by the Insurance Superintendent.

### FROM 1855 TO 1893.

The first insurance law passed February 14, 1855, applied only to foreign insurance companies. In brief it provided that before undertaking risks or transacting the business of insurance in the State a certificate of authority must be obtained from the Auditor of State as the Auditor of Public Accounts was then designated. The process of obtaining the certificate was as follows: Any agent of a foreign insurance company desiring to write insurance was required to file a statement with the Auditor of State showing:

the name and location of company;
its capital stock;
its assets in some detail;
its liabilities and losses;
the greatest amount permitted to be insured in any locality;
the greatest amount actually placed in any one block;
the Act under which it was incorporated.

It was also provided that the company for which the agent was applying must by written document consent to the service of process upon the agent of the company instead of upon the company itself. In order to be eligible to a certificate a company incorporated in another state must have a capital of at least one hundred thousand dollars ($100,000) invested in certain specified classes of securities and where the company was incorporated under a foreign government the investments must be located within the United States. After the certificate was granted a copy thereof together with a copy of the statement filed with the Auditor of State, must be published in some newspaper of general circulation in the cities of Chicago, Peoria and Springfield and a copy also filed in the office of the clerk of the court in the county in which the agent desired to write insurance. The certificate was good for one year only and might be renewed by showing that the capital, securities and investments were secure.

In addition to the above requirements the Act of 1855 attempted to protect policy holders in foreign insurance companies who sustained losses by requiring that the agents retain all moneys in their respective offices pending the adjustment of claims. The first general Act covering the great fields of fire, marine, inland navigation and life insurance was enacted in March, 1869. Bills for the above purpose were introduced early in the session and seem to have been given serious atten-

tion by the committees in the Legislature. As a result of their deliberations two acts were passed. (1) An Act to incorporate and govern fire, marine and inland navigation insurance companies doing business in the State of Illinois. This Act was approved and in force March 11, 1869. (2) An Act to organize and regulate the business of life insurance was approved March 25, 1869 and was in force July 1, 1869.

The Act relating to fire, marine and inland navigation provided that any thirteen or more persons desiring to form an insurance company must file with the Auditor of Public Accounts a declaration and publish the same in a local newspaper. After filing the declaration the company might, if a stock company, open subscription books or, if a mutual company, receive propositions for underwriting risks and after securing the capital stock or the requisite number of applications, but before beginning business, however, a copy of the proposed charter and a statement showing the exact financial condition must be submitted for approval. The charter was first submitted to the Attorney-General who passed upon its legality of form. If he approved the company was then examined by the Auditor or by his representatives and if the report was satisfactory a certificate was issued entitling the company to enter the insurance business.

As a necessary condition to continuing in business each company thus certified must first submit an annual statement showing in detail its assets and liabilities and its receipts and disbursements in such form as may be prescribed by the Auditor; and, second, must submit to such occasional examination as the Auditor might prescribe. Foreign companies were required to have the same qualifications and to submit the same statements as domestic insurance companies. The Auditor was authorized to issue certificates to those properly qualified to do business under the law. The fees as provided in the Act of 1869 were as follows:

| | |
|---|---|
| Filing declaration | $30,00 |
| Filing annual statement | 10.00 |
| Furnishing certificates to agents of foreign companies | 2.00 |
| Furnishing certificates to agents of local companies | .50 |
| The official seal | 1.00 |

The requirements of the Act of 1869 relating to life insurance companies were in their general principles similar to those regulating property insurance. The same procedure was provided for the formation of companies. The examinations were of the same general nature except in one particular, namely, in the case of life insurance companies the Auditor was required to make a valuation of policies provided such policies were not valued by other states. The Auditor was allowed certain fees for the examination and the certificate, and he was required to publish an annual report. As a result of this legislation the annual reports of life insurance companies in Illinois date from 1869.

*Supplementary legislation.*

Supplementary laws extending the scope of the business of insurance and of the work of the Auditor of Public Accounts in regulating companies have been as follows:



Act of May 19, 1872; foreign fire insurance companies must deposit Two Hundred Thousand Dollars ($200,000) with the insurance department unless a similar amount is deposited in some other one of the United States.

Act of May 24, 1874; authorizes the formation of township fire insurance companies; formation and regulation similar to general fire insurance companies.

Act of June 2, 1877; county fire insurance companies may be authorized by the Auditor to engage in writing insurance against fire and lightning.

Act of June 4, 1879; foreign companies to have licenses upon condition that they agree not to remove cases to United States courts when the transaction arose in this State.

Act of July 1, 1879; foreign property insurance companies must comply with the general insurance law.

Act of May 31, 1881; contiguous townships may join together to form insurance companies; not more than twelve (12) townships in all.

Act of June 18, 1883; fire insurance companies must have a deposit of two hundred thousand dollars ($200,000) in some states and an agent in this State upon whom process can be served; agent must have a certificate of authority from the Auditor.

Act of July 16, 1887; farmers county mutual live stock insurance companies authorized; regulation similar to general insurance companies.

Act of June 4, 1889; county mutual wind storm insurance companies authorized.

Act of June 7, 1889; accident insurance companies authorized; formation and regulation similar to general life insurance companies.

Act of June 16, 1889; insurance companies may be formed to furnish indemnity to widows, etc.

Act of June 22, 1891; companies other than mutual and stock companies already authorized must have a surplus of two hundred thousand dollars ($200,000) in order to do business in Illinois.

### SUPERVISION BY THE INSURANCE SUPERINTENDENT.

By an Act of the Legislature of June 20, 1893, a separate and distinct department of the State administration was created entitled the Insurance Department of the State of Illinois. This department was placed under the control of an officer called the Insurance Superintendent. To this new office was intrusted the execution of all laws relating to insurance and insurance companies organized and doing business in the State.

The Insurance Superintendent is appointed by the Governor by and with the advice and consent of the Senate and holds office for four years. The appointee is required to be "a person experienced in the matter of insurance." The salary is fixed in the Act at five thousand dollars per annum. The superintendent is authorized to appoint an actuary and such assistants as may be necessary for the conduct of the business.

The Insurance Superintendent succeeded to all the powers over insurance formerly exercised by the Auditor of Public Accounts and Attorney-General. He was authorized to have an official seal and to affix the same to documents and papers examined by his department. The duties of the Insurance Superintendent were those formerly placed upon the Auditor of Public Accounts so far as insurance business in the State was concerned. In general the duties of the Insurance Superintendent are as follows:

*New Companies.*

The Insurance Superintendent is authorized to supervise the formation of new companies and to examine (a) the legality of their corporate organization; (b) the financial responsibility of the individual companies. The law at present provides for the formation of insurance companies in each of the following fields:

Fire, marine and inland navigation.
Life insurance.
Accident and health insurance.
Fraternal beneficiary societies.
Casualty, health, employers liability, credit, burglary, steam boilers, plate glass and other lawful risks.
Wind, cyclone and tornado.
Surety.
Live stock.

The process of formation is generally the same for all varieties of insurance. Persons desiring to form a company must first file a declaration in the office of the Superintendent of Insurance signed by all the corporators stating the purpose and accompanying the declaration with a copy of the charter, the terms of which are to a certain extent prescribed by law. After the charter has been filed and the title of the company approved by the Superintendent of Insurance the corporators may proceed to solicit subscriptions to the capital stock, or if a mutual company, propositions for insurance. When the prescribed amount of capital stock has been subscribed or the required amount of business secured the charter and proof of publication must be examined and if approved, the same shall be certified by the Superintendent. The Superintendent then must make an examination of the company to ascertain whether the required amount of capital has been paid or the required amount of business secured. When satisfied that all the requirements of the law have been complied with the charter is certified and the same when filed in the office of the county clerk is the authority of the company for the writing of insurance.

*Admission of Companies from other Jurisdictions.*

The State insurance law has always favored the admission of foreign companies for the purpose of writing insurance in this State. Indeed the Honorable Fred W. Potter, ex-superintendent of insurance, in his annual report for 1913, part I, p. 17, congratulates the people of the State upon the favorable record of our Legislature in this respect. As early as 1855 when the first Act was passed regulating the admission of foreign insurance companies to do business in this State, no conditions were imposed that would work any hardship upon any legitimate insurance company. At that time the fees required were merely nominal. At the present time the law requires that in order to be admitted to the State the following conditions must be complied with:

There must be a resident attorney upon whom process may be served.
Securities to the same amount and character as required of State companies must be deposited with the State Insurance Superintendent or proof furnished that a like amount is deposited with the proper officer in some other state of the federal union.
Foreign companies must have available cash assets at least equal to that required of domestic corporations.



*Annual Reports.*

All companies doing an insurance business in this State whether domestic or foreign are required to make an annual report to the Insurance Superintendent in such form as he may prescribe and to deposit the same in the office of the Insurance Superintendent some time during the month of January. The form as prescribed at the present time demands satisfactory information both as to the character of the assets and of the liabilities and also of the sources of income and the specific disbursements. In general the schedule of questions in use at the present time contain approximately thirty specific inquiries which must be answered in detail and without qualification. By an amendment of 1903 the Insurance Superintendent may add to the specific inquiries made by law.

*Examinations.*

The most difficult and the most important duty of the Insurance Superintendent after the chartering of domestic companies is that of making examinations of insurance companies doing business in the State whenever he deems it expedient to do so. For this purpose the Insurance Superintendent is authorized to appoint examiners whenever he finds it impracticable to make examinations himself. In such examinations the Superintendent is authorized to inspect books and records and documents, to examine under oath the officers and agents. If after such examination he finds the assets are not sufficient to justify the continuance of the company he may direct that any deficiency in assets be made good within a designated time or he may apply to the circuit court for an order requiring such company to show cause why the business of the company should not be discontinued. If the case warrants, the court may decree a dissolution of the company or provision may be made for an assessment upon the stockholders of a stock company or the members of a mutual company. In the case of foreign companies the Insurance Superintendent is authorized to revoke the certificate granted its agents and to see that no further business is written in the State.

*Publications.*

By Section 9 of the Act of 1893 creating the department of insurance the superintendent is required to report annually not later than May first to the Governor concerning the affairs of the office. In this report the superintendent is required to include tabulated statements and a synopsis of the annual statements of the insurance companies doing business in the State and such other matters as in his opinion may be for the benefit of the public. In accordance with the above provisions the Superintendent of Insurance publishes annually three volumes—part 1, fire; part 2, life; part 3, casualty, surety and fraternal associations. For the year 1913 these reports show that the department exercised supervision over the following companies:

| | |
|---|---|
| Fire, marine, etc. | 1 |
| Illinois joint stock fire insurance companies | 7 |
| Illinois mutual fire insurance companies | 13 |
| Other states joint stock fire and marine insurance companies | 138 |

| | |
|---|---|
| Foreign government fire and marine insurance companies | 66 |
| Other states mutual fire insurance companies | 28 |
| Total | 253 |
| Local mutual companies:— | |
| District mutual fire insurance companies | 12 |
| County mutual fire insurance companies | 63 |
| Township mutual fire insurance companies | 143 |
| District mutual wind-storm and lightning insurance companies | 8 |
| County mutual wind-storm and lightning insurance companies | 4 |
| Total | 230 |
| Grand Total | 483 |

In addition to the above there were operating in the State 21 inter insurers, and 8 Lloyds.

| | |
|---|---|
| Life:—Legal reserve companies:— | |
| Illinois companies | 21 |
| Other states' companies | 55 |
| Foreign government companies | 4 |
| Total | 80 |
| Casualty, assessment and fraternals:— | |
| Casualty:— | |
| Illinois casualty companies | 13 |
| Other states' casualty companies | 67 |
| Foreign government casualty companies | 9 |
| Total | 89 |
| Assessment life:— | |
| Illinois assessment companies | 13 |
| Other states assessment companies | 7 |
| Total | 20 |
| Assessment accident:— | |
| Illinois assessment accident companies | 10 |
| Other states' assessment accident companies | 5 |
| Total | 15 |
| Fraternal:— | |
| Illinois fraternal insurance companies | 68 |
| Other states' fraternal insurance companies | 74 |
| Foreign government fraternal insurance companies | 1 |
| Total | 143 |
| Grand Total | 267 |

The above may be summarized as follows:

| | |
|---|---|
| Companies doing a general fire and marine insurance | 252 |
| Companies doing a local fire windstorm and cyclone insurance | 230 |
| Lloyds and inter-insurers | 29 |
| Legal reserve life insurance companies | 80 |
| Casualty, surety, plate glass, etc. | 89 |
| Assessment life insurance companies | 20 |
| Assessment accident insurance companies | 15 |
| Fraternal societies | 143 |
| Grand Total | 858 |



In addition to the above it should be remembered that the department of insurance exercises supervision over companies winding up their affairs, either when insolvent or for any other cause.

*Official Staff.*

The official staff of the Insurance Superintendent consists of twenty-five persons classified as follows:

| | |
|---|---|
| Insurance Superintendent | 1 |
| Actuary | 1 |
| Examiners | 5 |
| Clerks | 13 |
| Stenographers | 2 |
| Bookkeeper | 1 |
| Messenger | 1 |
| Janitor | 1 |
| | 25 |

All of the appointees of the Insurance Superintendent are at the present time in the classified Civil Service.

*Financial Summary.*

The insurance department collects fees and taxes as prescribed in the various Acts, on domestic and foreign insurance companies, the amount for 1912 being shown below:

*Fees.*

| | |
|---|---|
| Annual statements | $ 6,345.00 |
| Agents licenses | 98,808.50 |
| Charters | 1,095.00 |
| Assessment companies and fraternals | 1,140.00 |
| Township companies and district mutuals | 230.00 |
| Miscellaneous fees | 20,616.22 |
| Special agents—surplus lines | 7,938.83 |
| Examinations | 9,364.11 |
| Inter-insurerers and Lloyds | 179.00 |
| Total | $145,716.66 |

*Taxes.*

| | |
|---|---|
| Insurance companies | $425,031.88 |
| Fire Marshal | 59,887.80 |
| Total | $484,919.68 |
| Grand Total | $630,636.34 |

The Auditor's report of November 1, 1912, shows that for the biennium 1910-12, the Insurance Superintendent turned over to the State treasury from fees collected the sum of $1,178,695.41 and that in addition to this there was the sum of $3,972.12 from the same officer under an Act of June 9, 1911, relating to the payment of public money of the State into the State treasury.

The Auditor's report for the two years ending September 30, 1914, shows the following receipts of the State treasury from the Insurance Superintendent:

| | |
|---|---|
| 1912-1913 | $ 735,918.05 |
| 1913-1914 | 618,602.82 |
| Total | $1,354,520.87 |

The authorized expenditures of the department, under the appropriations for the two years from July 1, 1913, to June 30, 1915, are as follows:

| | | |
|---|---|---|
| Salary Insurance Superintendent | $ 5,000 | |
| Actuary and Assistant | 6,400 | |
| Chief Clerk and Assistant | 5,400 | |
| Cashier and Bookkeeper | 2,200 | |
| Securities Clerk | 2,200 | |
| Five Valuation Clerks @ $1,500 | 7,500 | |
| Abstract Clerk | 2,200 | |
| Policy Examiner and Stenographer | 1,500 | |
| Three Certificate Clerks | 3,900 | |
| Index Clerk | 1,500 | |
| Chief Examiner | 3,500 | |
| Two Assistant Examiners | 5,000 | |
| Two Stenographers | 2,400 | |
| Messenger and Janitor | 1,700 | |
| Extra Clerk Hire | 1,000 | |
| Total Salaries | | $51,400 |
| Office Expenses | $ 8,000 | |
| Examination and Investigation | 10,000 | |
| Prosecution of Violations | 3,000 | |
| Legal Services | 4,000 | |
| Printing Reports | 2,000 | |
| Attending National Convention | 125 | 27,125 |
| Total Per Annum | | $ 78,525 |
| For Two Years | | $157,050 |
| For Office Equipment | | 1,450 |
| Grand Total, 1913-15 | | $158,500 |
| Appropriations, 1911-13 | | 154,450 |

Expenditures as shown by the reports of the Auditor of Public Accounts for the two last biennial periods have been as follows:

| | |
|---|---|
| October 1, 1910, to September 30, 1912: | |
| Salaries | $119,852.26 |
| Expenses | 23,187.95 |
| Total | $143,040.21 |
| October 1, 1912, to September 30, 1914 | 154,735.17 |

The report of the Insurance Superintendent is published in three parts:

Part I—Fire, Marine, etc.
Part II—Life legal reserve.
Part III—Casualty, surety, steam boiler, plate glass and fraternal and assessment sureties.



Each volume contains, first a general summary of the work of the department with reference to the branch of insurance therein contained; second, a series of general tables and the reports of the financial condition of each of the separate companies. The three volumes at the present time embrace approximately 2,500 pages. The law requires that an edition of at least one thousand be published.

In addition to the regular report, the legislature has authorized the publication of a fourth volume containing the report of the farmers' mutual companies authorized under the State law. For printing and distributing the latter a special appropriation is made. In the case of the regular report, the expense is included in the general contract and some details may be learned from the report of the Secretary of State, especially that portion devoted to the work of the State Printer Expert. From these sources we summarize as follows:

*Publication Expenditures.*
1910-12.

| | |
|---|---|
| Printing and distributing farmers' mutual ins. companies reports | $ 2,112.33 |
| Printing fire reports | 2,215.68 |
| Printing life reports | 1,721.10 |
| Printing casualty, etc. | 2,132.80 |
| Binding reports | 4,464.10 |
| Printing insurance laws | 339.69 |
| | $12,985.70 |

It is probable that the above is not complete, as it is apparent that only the more important items were separately listed, the remainder being included in the general printing bill.

## STATE FIRE MARSHAL.

By an Act of June 15, 1909, the office of State Fire Marshal has been created. This officer is appointed by the Governor, with the advice and consent of the Senate, for a term of four years. In most respects the office is independent of any other; but in some matters it is associated with the Insurance Department. The bond of the State Fire Marshal must be approved by the Insurance Superintendent; and he reyorts annually to the Insurance Superintendent, who publishes such parts as he deems desirable. The report of the Fire Marshal regularly appears as an appendix to the Report on Fire Insurance.

The State Fire Marshal is authorized to appoint one chief assistant, a first and second deputy fire marshal, and also additional deputies and office assistants. He may also appoint as inspectors persons skilled in the business of fire insurance and in the inspection of buildings, who have the powers of other deputies, but serve without compensation. Under the Act of 1909, the State Fire Marshal receives a salary of $3,000 a year, the assistant fire marshal $1,800 and the first and second deputies $1,500 each.

The appropriation Act of 1913 provides for the following staff and salaries:

| | |
|---|---|
| Chief deputy | $ 2,000 |
| Six deputies @ $1,500 | 9,000 |
| Eighteen deputies @ $1,200 | 21,600 |
| Four stenographers | 4,500 |

| | | |
|---|---|---|
| Statistician | 1,000 | |
| Stenographer fees | 3,000 | |
| Janitor | 180 | |
| Total salaries | | $ 41,280 |
| Traveling expenses | $24,000 | |
| Office rent and expense | 6,000 | 30,000 |
| Total per annum | | $ 71,280 |
| For two years | | 142,560 |

The work of the State Fire Marshal is two fold:

(1) To investigate the causes of fires, and especially those of suspicious origin.

(2) To inspect dangerous buildings on complaint.

In this work the State Fire Marshal co-operates with local authorities—the chiefs of fire departments, the mayors of cities and villages where no fire departments exist, and the township clerks. The local officers are required to make investigations and to report to the State Fire Marshal within one week; and local officers who do not receive compensation are paid fifty cents for each fire reported and fifteen cents per mile for travel to the place of the fire. When the State Fire Marshal considers further investigation necessary, he has power to summon witnesses and take testimony under oath; and where there is evidence of crime he is required to have prosecutions instituted.

On examination of buildings on complaint, the State Fire Marshal, his deputies or the local authorities, may order buildings or other conditions which endanger other buildings or property to be removed or remedied. Appeals may be taken from orders given by any subordinate officer to the State Fire Marshal.

*Financial Statement.*

The work of the State Fire Marshal is supported by a tax on the gross receipts of insurance companies operating in the State to be paid into a special fund. The law provides that the tax may not exceed one-fourth of one per cent of the gross receipts, and whenever there shall be an accumulation from previous years that the rate of assessment on the gross receipts shall be correspondingly lessened. For the two years ending September 30, 1914, the receipts and expenditures were as follows:

| | 1912-13 | 1913-14 |
|---|---|---|
| Receipts | $61,275.46 | $62,991.04 |
| Expenditures | 54,480.49 | 76,029.96 |

*Proposed Building Commissioner.*

A Commission appointed under an Act of 1911, to revise and codify the building laws of the State of Illinois, reported in 1913 a tentative draft of administrative provisions and certain other portions of a proposed building code. This measure proposed the creation of a State Department of Buildings, under a State Building Commissioner, to be appointed by the Governor, to enforce the law relating to the construction, alteration, repair and safety of buildings.



If a State building code is enacted, with machinery for State supervision of building construction, it should be combined with the present State Fire Marshal's office. Such an office should also actively co-operate with the factory inspection service, and with the inspection of hotels and lodging houses.

## III. SUPERVISION BY THE AUDITOR OF PUBLIC ACCOUNTS.

The Auditor of Public Accounts has two functions as an administrative officer: first, as the State auditor in charge of the accounting system for the entire State administration; second, the regulation of State banks, trust companies, building and loan associations, pawners' societies, wage loan corporations, and title guarantee companies. For the years 1910 to 1912 the work of the Auditor's office in the second capacity may be summarized as follows:

136 banks were organized.
3 converted into national banks.
8 consolidated with other State banks.
8 charters expired.

On October 1, 1912, 607 banks were subjected to regulation by the auditor's office. Ten calls were made upon banks for statements under the provision of section 7 of the Bank Act.

During the biennium, 1910-12, seventeen banking associations, one institution organized under the general corporation act, and two foreign corporations were authorized to conduct the business of trust companies under the law. One banking association and one foreign corporation have surrendered certificates during the same period. Two consolidations affecting three banking associations, one affecting two general corporations, one affecting two foreign trust companies were formed.

Two pawners' societies were in operation and regularly examined.

There are only two title guarantee companies operating under the Illinois law. Both of these companies have been regularly examined.

### THE REGULATION OF BANKS.

Banking in Illinois may be conducted in either one of three ways: first, the national bank system; second, under the State banking system; third, as private bankers. The first of the three classes is subjected to examination by the United States government; the second by the Auditor of Public Accounts; the third class operates entirely free from public regulation.

*Incorporation.*

The general banking law dates from June 16, 1887. It was then provided that banks may be formed "for the purpose of discount and deposit, buying and selling exchange, and doing a general banking business excepting the issue of bills to circulate as money and such banks or banking associations shall have the power to loan money on personal and real estate security and to accept and execute trusts.



The process of forming State banks is similar to that prescribed for general business corporations.

When any number of persons desire to form a banking corporation they are required to render a statement under seal and properly acknowledged showing the place of business, the amount of capital, the time for which the corporation is formed and the name under which they propose to operate. This statement is presented to the Auditor who, if he finds the application in proper form, will issue a permit to open books for the purpose of securing subscriptions to the capital stock. When the capital stock is fully subscribed, a meeting of the subscribers is called for the purpose of organizing and electing directors. The directors then organize, appoint the officers and employes, make the by-laws, and take an oath of office such as the auditor shall prescribe. They may then open books and furnish the Auditor with a list of stockholders and such records as the auditor may require. When the directors have organized, the capital stock is fully paid in and a record of the same laid before the Auditor, he is then authorized to make a thorough examination into the affairs of the banking corporation. If after such examination is made, he is satisfied that the banking company has the full amount of capital authorized in proper funds, he shall then collect from the banking association the expense of making the said examination and then shall give them a certificate under seal, authorizing them to commence business under the law. The said certificate and the permit issued in accordance therewith shall then be recorded in the office of the recorder of deeds in the county where the bank is organized. Upon the recording of said certificate and permit the bank is fully organized and may proceed to do business.

The Auditor is not only the supervisor of the financial operations of the bank but he is authorized to withhold the certificate provided he is not satisfied as to the personal character and standing of the officers or directors elected to manage the business, or if he has reason to believe that the bank is organized for any purpose other than that contemplated by the Act.

*Examinations.*

The Act authorizes two distinct kinds of examinations:

(1) An examination which is in the form of a report to the Auditor upon a blank form prescribed by the Auditor's office and sent out to each bank. Such reports must be called for at least once every three months. It is the practice of the Auditor's office to make such calls simultaneously with the calls issued from the Treasury Department at Washington upon the National banks. Such reports must be returned to the Auditor within five days after the call is received. The report received is published at the expense of the bank making it in some newspaper published as near as possible to the location of the bank. These reports are also published by the Auditor in pamphlets and distributed to the banks and other interested parties.

(2) In addition to the stated examination as above described, the auditor is authorized to make an examination of the affairs of every bank established under the provision of the Act at least once in each

year. For this examination the Auditor is authorized to appoint suitable deputies who make a personal examination of the bank and report to the Auditor upon a blank prepared in the Auditor's office.

For the purpose of the personal examination of the bank the Auditor's office employs a number of bank examiners, and in addition to the office at Springfield a second office is maintained in Chicago. The expense of the examination is provided for in the law as follows: each examiner receives ten dollars a day for his services and the necessary mileage. This is charged against the bank and is paid at the time of the examination. The examiners are, however, paid a salary and at the present time the receipts from the examination are not sufficient to provide the entire cost of examination. Consequently, as a result, the State is at some expense on account of the bank examinations.

The banking law provides fairly strict regulations as to the financial policy of each bank and is especially stringent in its provisions as to the impairment of the capital of the bank. As it is the duty of the Auditor to see that the banking law is strictly followed by each bank organized under the Act, it is of the utmost importance that the examinations be in the hands of competent men and the examinations thoroughly and carefully made. As there are at the present time almost 700 banks which must be examined annually and only ten examiners assigned to field work, it is evident that each examiner must make something like seventy examinations annually; or, one examination in approximately four days. It is questionable whether the examinations can be as thorough as they ought to be with the present force of examiners. It should be mentioned in this connection that four of the ten examiners are assigned to the district outside of Chicago, and that of the seven hundred banks over six hundred are in the country districts. This would mean that every country bank examiner must examine 150 banks, or one every two days.

### TRUST COMPANIES.

The work of the trust company may be carried on in this State by three different kinds of companies: (1) corporations under the general law; (2) banks; and (3) foreign banks having trust powers and licensed by the State.

The general law governing the operation of trust companies in Illinois was passed in 1887. This Act provided that any corporation organized under the general law for the purpose of accepting and executing trusts or any corporation that might be authorized by law to accept risks must, before accepting a trust, file a statement with the Auditor of Public Accounts. If the Auditor finds that the company is lawfully organized for the work in accordance with the provisions of the Act, he shall issue a license authorizing the corporation to do business as provided in the law. Such corporations must make deposit with the Auditor of Public Accounts of the following amounts: namely, companies operating in cities of 100,000 or more must deposit $200,000 and companies operating in cities of less than 100,000 must deposit $50,000. Such deposits are held in trust by the Auditor of Public



Accounts for the creditors of the company. Bonds of the United States, municipal bonds, or mortgages on improved or productive real estate in the State are the particular kinds of security that may be accepted. Foreign corporations are subjected to the same requirements as domestic and must submit a statement and receive a license before undertaking trusts.

*Examinations and Reports.*

Every trust company authorized by the Auditor of Public Accounts is required to make an elaborate report to the Auditor in regard to its assets and liabilities; and in addition the Auditor is required to make an examination of such companies similar to that provided for banking corporations. For this purpose the Auditor appoints examiners, and the expense of the examination is paid by the trust company examined. These examinations are to be made annually and abstracts of the annual reports, in form prescribed by the auditor, are published in two newspapers—one located in the city of Springfield and the other in the county seat of the county where the respective trust company is located. The Auditor may make such other examinations as he deems proper by sending the proper blank to the trust company and requiring that it shall be filled in accordance with directions thereon. If the Auditor finds any violation of the law or any irregularity in the conduct of the business, he must make an order directing the discontinuance of such illegal or unsafe practice; and if the particular corporation refuses or neglects to comply with the Auditor's directions, he is directed to communicate the facts to the Attorney General who will thereupon institute such proceedings as the case may require.

The Auditor also has authority to revoke the certificate where satisfactory evidence is presented that any annual statement or other report required by the act is false. If it is afterwards proven to the satisfaction of the Auditor that the corporation is then strictly complying with the law in all particulars, he may set aside the revocation and permit the trust company to continue business. Certain fees are required in connection with the reports which partially pay for the supervision of these corporations.

### PAWNERS' SOCIETIES AND WAGE LOAN CORPORATIONS.

Pawners' societies and wage loan corporations are formed under the general law and make an annual report to the Auditor of Public Accounts on each year's work for the fiscal period ending September 30. The Auditor of Public Accounts has the same power of examination over pawners' societies and wage loan corporations as over trust companies.

### BUILDING AND LOAN ASSOCIATIONS.

Building and Loan Associations are regulated under the law of 1879 which has been amended several times in various particulars. There are now 591 of these associations operating under the law of 1879 in the State of Illinois of which 219 are in Chicago and 372

outside. The reports of the building and loan associations are published by the auditor in a special report in which the building and loan associations are alphabetically arranged.

*Incorporation.*

Building and loan associations are incorporated in the same general way as corporations under the general law. Any number of persons, not less than five, make a statement, sealed and acknowledged, to the Auditor of Public Accounts. This statement contains the name of the association, the capital stock, location and duration of the corporation, etc. The Auditor then issues permission to the commissioners to open books for receiving subscriptions. When 100 shares have been subscribed, the commissioners call a meeting, elect directors, adopt a constitution and by-laws, and make a full report to the Auditor of Public Accounts, including a copy of all transactions up to the date of filing the report. The Auditor submits the by-laws to the Attorney-General and if he approves them, the Auditor issues a complete certificate which is recorded in the office of the county recorder. The company is then fully organized.

The law provides that it shall be unlawful for any company, association, corporation, or co-partnership assuming to be a company or corporation to transact business in this State for the purpose of receiving money in installments or for supplying money to build homes, excepting under the provisions of this Act.

The officers are required to give bonds in appropriate amounts which are filed with the Auditor of Public Accounts. The Act prescribes fairly definitely in regard to shares, capital, statements, withdrawals, meetings, duties of directors and so on.

*Annual Report.*

Every building and loan association is required to make an annual report to the Auditor containing a detailed statement of its receipts and expenditures within sixty days after the end of its fiscal year.

*Examinations.*

Examinations are prescribed as in the case of banks, and a force of examiners employed in the Auditor's office make the examinations.

*Custodian.*

The law provides that if the assets of any building and loan association are impaired and knowledge of the fact comes to the Auditor through reports or examinations, he shall appoint a custodian, call a meeting of the shareholders, and make a report to them. The custodian shall then take charge of the entire affairs and make a report to the shareholders. If it shall be found practical to reorganize, the Auditor shall prepare plans for the same and turn the company over to the new organization. In case he is unable to reorganize, voluntary liquidation may be authorized by the Auditor, or he may report to the Attorney General who will then apply to the circuit court for authority to wind up its affairs.



*Foreign Building and Loan Associations.*

Foreign building and loan associations are subject to the act. In order to undertake the work of a building and loan association within this State, a foreign building and loan association must apply for a certificate from the Auditor of Public Accounts, make a deposit of $100,000 in bonds and stocks, approved by the Auditor, and file a copy of their charter and by-laws together with a statement of their financial resources as required of domestic building and loan associations. If the Auditor finds the report satisfactory and all the provisions of the law complied with, he issues a certificate permitting such building and loan associations to operate in this State. He may cancel the said certificate whenever he finds that the foreign building and loan association is not operating in conformity with the law.

The fee for the certificate of authority is fifty dollars and the annual renewal thereof is twenty-five.

TITLE GUARANTEE COMPANIES.

The title guarantee company act was passed in 1901. It authorized the formation of companies to conduct the business of guaranteeing titles to real estate. The title guarantee company while in fact an insurance company is not placed under the jurisdiction of the insurance superintendent. Such companies are incorporated under the general corporation act, but are subject to the supervisory control of the Auditor of Public Accounts. They are required to maintain deposits with the Auditor of $25,000 of securities, except in cities of 3,000 or more where $50,000 of securities are required. Title guarantee companies are regularly examined by the Auditor and are required to submit annually reports of their condition. If as a result of examination it is found that the capital of any such corporation is impaired, to the extent of twenty-five per cent or for other reason is found to be in unsafe condition, it is the duty of the Auditor to cancel the authority to continue business in the State.

FINANCIAL SUMMARY.

The following statement shows the amounts appropriated in 1913 for the staff and expenses of the banking and building and loan departments:

*Banking Department.*

| | | |
|---|---|---|
| Chief clerk | $ 5,000 | |
| Clerk | 1,500 | |
| Two stenographers @ $1,200 | 2,400 | |
| Clerk and messenger | 900 | |
| Two bank examiners, Chicago, @ $5,000 | 10,000 | |
| Two assistant bank examiners, Chicago, @ $3,600 | 7,200 | |
| Two assistant bank examiners @ $2,500 | 5,000 | |
| Four bank examiners @ $4,000 | 16,000 | |
| Two stenographers, Chicago, @ $1,200 | 2,400 | |
| Extra clerk hire and examiners | 5,000 | |
| Total salaries | | $ 55,400 |
| Traveling expenses, bank examiners | | 7,500 |

*Building and Loan Department.*

| | | |
|---|---|---|
| Assistant chief clerk | $ 3,000 | |
| Two clerks | 4,750 | |
| Five examiners | 11,500 | |
| Total salaries | | $ 19,250 |
| Traveling expenses, B. and L. examiners | | 4,000 |
| Rent, Chicago office | | 1,500 |
| Total per annum | | $ 87,650 |
| For two years | | $175,300 |
| Furniture, carpets, etc., Chicago office | | 1,000 |
| Grand total | | $176,300 |

The statement below shows the expenditures and receipts for each department for 1912-13:

*Expenditures and Receipts, 1912-13.*

| | Banking Department | Building and Loan Department |
|---|---|---|
| Total Receipts | $ 95,505.48 | $26,336.67 |
| Total Disbursements | 104,282.65 | 39,126.90 |
| Deficit | $ 8,777.17 | $12,790.53 |

It will be noticed that both the banking and building and loan departments show a small deficit, which is relatively larger for the building and loan department. The fees provided for the examiners are ten dollars a day and traveling expenses while actually engaged in making examinations. The salaries and expenses of the examiners are on the average somewhat in excess of the amount of fees prescribed by law. As a necessary result there is an annual deficit. While it is not necessarily essential that these departments should be self-supporting, it may be proper to suggest that the fees charged for the examinations might be increased sufficiently to overcome the deficit and thus put the burden upon the banks and building and loan associations rather than upon the general taxpayers.

## IV. THE PUBLIC UTILITIES COMMISSION.

*Introduction.*

State action in relation to what are now known as public utilities, began in Illinois with plans for a canal connecting the Chicago and Illinois Rivers. After much discussion, construction was begun in 1836, and the canal was completed and opened for navigation in 1848. Soon after work was begun on the canal, plans for an extensive system of internal improvements were undertaken, including a series of State railroads; but only a few miles of road were built before this elaborate plan was abandoned; at a considerable loss to the State, and the railroad built was sold.

In 1851 the Illinois Central Railroad was chartered, and received large tracts of land granted by Congress to the State to aid in the construction of such a road. Other roads were rapidly built, aided in many cases by funds raised by counties and municipalities, which incurred large debts for these purposes. Until after the close of the civil war, both State and local authorities were active in encouraging the construction of railroads; and there was no attempt at public regulation.

*Constitution of 1870.*

Public opinion in regard to railroads changed rapidly in the few years before 1870. Complaints of railroad charges and the demand for public regulation were among the important factors leading to the constitutional convention of 1869-70; and the revised constitution contained a number of provisions relating to railroads and warehouses. The consolidation of competing roads was prohibited, the issue of stocks and bonds was restricted and the general assembly was required to establish reasonable maximum rates and to pass laws to correct abuses and prevent unjust discrimination and extortion. Other provisions provided for the regulation of public warehouses. Limitations on the indebtedness of local districts restricted closely further public aid for railroad building; while at the same time provisions were adopted to require the payment of debts already incurred.

*Railroad and Warehouse Commission.*

Following the adoption of the Constitution of 1870, a railroad and warehouse commission was established in 1871, with important powers of supervision and regulation of railroads and public warehouses. This was one of the leading measures in the movement of this time for public regulation of railroads; and the litigation on its constitutionality resulted in a judicial decision—in the case of Munn vs. Illinois—upholding the power of the State to regulate business affected with a public interest.

A general act for the incorporation of railroads was passed in 1872; and from time to time additional legislation was enacted amending and supplementing the legislation of 1871 and 1872, of which the following acts may be noted:

1873 To prevent extortion and unjust discrimination.
1874 in relation to fencing and operating railroads
1877 To compel railroad companies to build and maintain passenger and freight depots.
1877 Investing conductors with police powers.
1877 In regard to interlocking signals at grade crossings and bridges.
1891 For the protection of grade crossings.
1905 To provide for the inspection of safety appliances.
1907 Establishing passenger rates.
1909 To regulate the size and construction of caboose cars.
1909 To require switch connections.
1911 To punish any person drinking intoxicating liquors in railroad cars.

Of much more importance than the foregoing were the amendments passed in 1911 to the railroad and warehouse commission act of 1871. These amendments granted to the commission much greater authority over rates and services of railroads, and extended its jurisdiction to include other common carriers. Another act of this year provided for the regulation of express companies. The additional powers granted by this legislation resembled those recently granted to railroad and public service commissions in other states, and those granted to the inter-state commerce commission by acts of Congress of 1906 and 1910.

*Local Utilities before 1913.*

Before 1870 there were few local public utility services in Illinois. But an act of the general assembly of 1865 granting privileges to street railway companies in Chicago led to a provision in the constitution of 1870 requiring the consent of the local authorities for street railway grants. By statute, the term of street railway grants has been limited to twenty years, and frontage consents must be secured. Municipal water works have been authorized; and the power of cities and villages to light the streets has been held to authorize a municipal plant for that purpose; an act of 1903 authorizes municipal street railroads; but thus far none have been established. More recently, the city of Chicago received power to regulate gas, electric light and telephone rates.

## PUBLIC UTILITY LAW OF 1913.

The Public Utility Law of 1913, which went into effect January 1, 1914, repealed the railroad and warehouse commisson law and the act relating to express companies, and established a new State Public Utilities Commisson with jurisdiction and general supervision over all classes of public utility companies. This commission consists of five members, appointed by the governor, with the advice and consent of the Senate, to serve—after the first appointment—for six years, one or two members retiring at a time. Not more than three members of the commission may be affiliated with the same political party. The chairman is designated by the governor.



The commission appoints a secretary and a counsel to hold office at its pleasure. Other officers and accountants, engineers, experts and other employees are appointed by the commission with the approval of the governor. Such appointments, except attorneys, chief engineer, chief accountant, one private secretary to each commissioner, temporary experts and positions exempted by the civil service commission, are made subject to the civil service law.

Each commissioner receives an annual salary of $10,000; the secretary $5,000, and the counsel $6,000. The compensation of other officers, agents and employees are fixed by the commission subject to the approval of the governor.

The general assembly of 1913 appropriated $60,000 a year for the expenses of the commission; and in addition the unexpended portion of the appropriation of $40,360 a year for salaries and expenses of the railroad and warehouse commission is available for the public utilities commission. These amounts, with the salaries of officers named in the law, which are payable out of the general appropriation for the salaries of State officers, makes a total of about $260,000 for the 18 months from January 1, 1914, to July 1, 1915.

*Public Utilities Defined.*

The term "public utility" is defined in the act to include:

> Every corporation, company, association, joint stock company or association, firm, partnership or individual, their lessees, trustees, or receivers appointed by any court whatsoever (except, however, such public utilities as are or may hereafter be owned or operated by any municipality) that now or hereafter: (a) may own, control, operate or manage, within the State, directly or indirectly for public use, any plant, equipment or property used or to be used for or in connection with the transportation of persons or property, or the transmission of telegraph or telephone messages between points within this State; or for the production, storage, transmission, sale, delivery or furnishing of heat, cold, light, power, electricity or water; or for the conveyance of oil or gas by pipe line; or for the storage or warehousing of goods; or for the conduct of the business of a wharfinger; or that: (b) may own or control any franchise, license, permit or right to engage in any such business.

*Incorporation, Franchises and Licenses.*

No change is made by the public utility law in the provisions for incorporating public utility companies; and such companies continue to be incorporated by the Secretary of State. Foreign public utility corporations authorized to do business in Illinois also continue to be licensed by the Secretary of State; but it is provided by the public utility law that:

> No franchise, license, permit or right to own, operate, manage or control any public utility, except common carriers engaged in inter-state commerce shall be hereafter granted or transferred to any granter or transferee other than a corporation duly incorporated under the laws of this State.

As enacted the public utility law contains no definite provision as to the granting of special franchises or licenses to public utilities for the use of public streets and highways. One article of the bill for this law, dealing with municipal powers, continued the former powers of cities and villages and provided for a large power of municipal

regulation over local utilities. The omission of this article leaves some question as to the effect of the law on the former powers of cities and villages. But under the constitution the grant of local street railway rights cannot be given without the consent of the local authorities; and it seems probable that the earlier laws requiring the consent of municipal authorities and in some cases of property owners are still in force.

At the same time the public utilities commission has some control over the beginning of new public utility services. No public utility company may begin the construction of any new plant or equipment which is not in substitution of an existing plant or equipment or an addition or extension thereto, until it obtains from the commission a certificate of public convenience and necessity. The public utility commission also succeeds to the power of the railroad and warehouse commission (under the warehouse law) to issue licenses to public warehouses; and it is also specifically authorized by the public utility law to hear and determine applications for the cancellation of warehouse licenses.

*Reports and Accounts.*

The commission has power to establish a uniform system of accounts for public utilities (or a uniform system for each class of public utilities), and to provide for the forms of accounts to be kept by public utilities. It may provide for the examination and audit of all accounts; and the officers and employees of the commission have authority to inspect and examine the books, accounts, papers and memoranda kept by such public utilities.

Each public utility is required to furnish to the commission annual reports, in the form and with such information as the commission may prescribe; and the commission may also require monthly and other periodical and special reports.

*Capitalzation and Intercorporate Relations.*

The power of public utilities to issue stocks, bonds, notes or other evidences of indebtedness is declared to be a special privilege, subject to supervision and control by the State. The purposes for which stocks, bonds, notes and other indebtedness may be issued are defined; and such issues (except notes for not more than twelve months) must first be authorized by order of the commission, made after a hearing and such additional inquiry and examination as the commission may deem of assistance. When deemed necessary, the commission shall make an adequate physical valuation of the property of the commission before issuing its order; and the commission has power to ascertain the value of the property of every public utility in the State, and to make revaluations from time to time.

The capitalization of a merger or consolidation is also subject to the approval of the commission.

Operating contracts between public utilities and purchases, leases, mortgages, and mergers as to their franchises, licenses, plant or other property must also receive the consent and approval of the commission granted on petition, and, if deemed necessary after a hearing. In its order the commission may attach such conditions as it deems proper.



*Control over Rates and Service.*

All rates or other charges and all rules and regulations by public utilities must be just and reasonable; and adequate, efficient, just and reasonable service and facilities must be provided and maintained. No preference may be granted to any person or corporation in rates, services or facilities; and no unreasonable differences may be made as between localities or classes of service.

Schedules of rates and classifications must be filed with the commission by every public utility; and such schedules must be published and posted. Unless otherwise ordered by the commission, no change in rates, classifications, rules or contracts may be made without thirty days notice; and no increase in rates may be made except upon finding by the commission that such increase is justified. Any schedule or rate may be suspended pending a hearing by the commission.

The commission has power to determine just, reasonable or sufficient rates, classifications, rules, or contracts, when it finds after a hearing had upon its own motion or upon complaint any of these to be unjust, unreasonable, discriminatory or preferential. The commission may also, after a hearing, order the establishment of through routes by two or more common carriers, and may fix joint rates for all classes of public utilities; and it has power to fix reasonable rates, rules and regulations regarding demurrage, storage, switching and other charges incident to the transportation of property. It may also investigate inter-state rates, and may apply to the Inter-state Commerce Commission for relief from excessive, discriminatory or illegal rates.

After a hearing, the commission may order any public utility to make reasonable additions, extensions or improvements to its plant, equipment, or facilities, and may require reasonable, safe, adequate or sufficient rules, practices, services and methods. More specifically it may require side track connections, track connections, telegraph and telephone connections and the joint use of property or equipment.

The commission has power to determine for each kind of public utility suitable standard commercial units of service, product or commodity, to provide reasonable regulations for examining, measuring and testing such service, product or commodity, and to examine and test the service, product or commodity of any public utility.

Public utilities are required to report accidents to the commission, which is required to investigate accidents and the commission has power after a hearing, to establish standards of equipment and to order the use of appropriate safety appliances. It also has power after a hearing to abolish grade crossings; and no new grade crossings may be constructed without the permission of the commission.

*Methods of Procedure.*

As a basis for its work, information as to public utilities is received by the commission by periodical and special reports and by

schedules of rates and regulations filed with it as prescribed by law. Problems calling for special action are called to its attention by petitions or applications for certificates of convenience and necessity and for approval of stock and bond issues, by reports of accidents and by complaints.

In addition to the data secured by these means, the commission is given extensive powers to make inspections and examinations and to hold investigations, inquiries and hearings. These may be carried on by the commission, or by any of the commissioners, or by an authorized officer or agent of the commission; all of whom have power to administer oaths, issue subpoenas, and compel the attendance of witnesses and the production of books, accounts and documents.

Formal hearings are required before orders and decisions may be made on certain matters; and for such hearings notice of the time and place must be served on the public utility, any complainant, and such other interested parties as the commission deems necessary. Provision is also made for a rehearing in any case, and for modifications of the order or decision of the commission.

*Appeals and Penalties.*

Appeals from rules or decisions of the commission may be taken to the circuit court of Sangamon County to determine its reasonableness or lawfulness; and from the circuit court appeals may be taken directly to the Supreme Court by either party to the action. The conditions under which such appeals may be taken are regulated by the act, as to time, notice to the commission, the admission of new evidence and the suspension of the order of the commission pending judicial proceedings. The finding of the commission as to questions of fact shall be held to be prima facie true, and "a rule, regulation, order or decision of the commission shall not be set aside unless it clearly appears that the finding of the commission was against the manifest weight of the evidence" or that it was without the jurisdiction of the commission.

The commission is authorized to commence mandamus or injunction proceedings to enforce obedience to the law or to the orders, rules or requirements of the commission.

Specific penalties are provided in the act for the violation of many of its provisions; and general penalties are authorized for violations or failure to comply with any other provision of the act or the orders, rules and requirements of the commission. Such penalties are authorized against public utilities or any corporations, their officers, agents or employees and other persons. Such penalties include fines and, in the case of individuals, imprisonment. It is also provided that stocks and bonds issued or inter-corporate agreements made without the approval of the commission shall be void.

*Staff and Organization.*

The staff of the Public Utilities Commission in August, 1914, was as follows:

| | |
|---|---|
| 5 Members of the Commission @ $10,000 | $50,000 |
| Chief counsel | 6,000 |
| Secretary | 5,000 |



| | |
|---|---|
| Chief engineer | 6,000 |
| Chief accountant | 5,000 |
| First assistant counsel | 4,000 |
| Two assistant counsels @ $3,000 | 6,000 |
| Consulting engineer | 3,600 |
| Assistant chief engineer | 3,000 |
| Electrical engineer | 2,700 |
| Three private secretaries @ $2,400 | 7,200 |
| Auditor | 2,400 |
| Telephone expert | 2,500 |
| Two assistant engineers | 3,200 |
| Two safety appliance inspectors | 3,500 |
| Chief of service department | 2,400 |
| Rate clerk | 1,800 |
| Clerk | 1,560 |
| Assistant auditor | 1,500 |
| Assistant accountant | 1,200 |
| Investigator | 1,500 |
| Clerk service department | 1,200 |
| Four reporters @ $1,200 | 4,800 |
| Three stenographers @ $1,200 | 3,600 |
| Ten stenographers @ $900 | 9,000 |
| Two stenographers | 1,780 |
| Four file clerks | 3,940 |
| Statistical clerk | 1,200 |
| Two janitors and messengers | 1,800 |
| Information clerk | 780 |
| Copyist | 900 |
| Mail and phone clerk | 720 |

The office of the Chief Accountant and Statistician is divided into four divisions, namely:

Accounting department.
Statistical department.
Rate and tariff department for transportation companies.
Rate and tariff department for other public utilities.

The Engineering Department is organized in the following divisions:

General office.
Railroad department.
Gas department.
Electrical department.
Telephone department.
Service department.

Up to August 11, 1914, there had been 801 formal cases placed on the docket of the commission, and 319 cases had been handled informally.

Receipts and disbursements from the State treasury from January 1, to September 30, 1914, on account of the Public Utilities Commission were as follows:

| | |
|---|---|
| Disbursements: | |
| State officers salaries | $ 44,545.37 |
| Other salaries and expenses | 86,232.26 |
| Total | $130,777.63 |
| Receipts | 151,898.63 |

## GRAIN INSPECTION.

Article 13 of the State Constitution of 1870, besides defining and regulating public warehouses, also provides that "the general assembly shall pass laws for the inspection of grain." By an act of 1871 a grain inspection and registration service was provided in connection with the railroad and warehouse commission, which was authorized to adopt rules and fix charges for inspection. This act has been amended and supplemented by later acts, in 1873, 1883, 1897, and 1907.

Under the public utility law, the public utility commission succeeds to the powers and duties of the railroad and warehouse commission; but in other respects the laws relating to grain warehouses and the inspection of grain remain in force. Under these laws the public utility commission issues and may cancel licenses to public warehouses and has power to make all proper rules and regulations and charges, and to establish grades for the inspection of grain; to appoint a warehouse registrar and assistants, and to prescribe their duties and compensation and exercise general supervision over them; and to appoint a committee on appeals of three persons each year, to hear and decide appeals from the chief grain inspector or any deputy.

The warehouse law fixes maximum rates for storage and handling of grain, and provides for the examination and test of grain and scales. It also regulates the rights and liabilities of warehousemen, and the issue and transfer of warehouse receipts.

The Chief Inspector of Grain is appointed by the Governor, with the advice and consent of the Senate, for a term of two years. This officer is charged with the general supervision of the inspection of grain under the advice and immediate direction of the railroad and warehouse commission, with authority to appoint deputy inspectors, upon the approval of the commissioners, and with supervision over all deputy inspectors.

The office of the chief inspector of grain is in Chicago, where the principal work of the department is done. The staff at this office, as provided in the appropriation of 1913, is more than 100 persons, including 21 supervising and deputy inspectors, 25 samplers, 23 helpers, 25 clerks and stenographers. Other offices are maintained at East St. Louis, Joliet, Kankakee, and Decatur. The appropriation of 1913 provides for 11 persons in the East St. Louis office; 2 at Decatur, and 1 each at Joliet and Kankakee.

The annual report of the grain inspection department deals almost entirely with the work of the Chicago office. Even for this, the text of the report is contained in a few pages, giving summary statements of inspections and finances, for which detailed tables are appended as exhibits. In recent years, a brief report from the deputy chief inspector at East St Louis, with statistical tables, is printed as an exhibit to the Chief Inspector's report. No reports are presented from the other branch offices; and these offices are not even mentioned, except in one report, for the year 1910.



Up to 1911 the expenses of the grain inspection department were paid from the fees and charges for inspection and weighing. Under act of 1911, the collections are paid into the State Treasury and salaries and expenses are paid out under appropriation by the General Assembly. Under the former system the collections usually exceeded the expenses; but in some years the expenses were larger than the collections for the same year, the difference being paid out of the accumulated balance. The following statements show the financial operations of the department for selected years:

COLLECTIONS AND DISBURSEMENTS OF GRAIN INSPECTION DEPARTMENT.

*Chicago.*

| Year ending October 31 | Collections | Disbursements | Balance |
|---|---|---|---|
| 1871 | $ 19,760.24 | $ 12,020.71 | $ 7,739.53 |
| 1881 | 89,074.35 | 97,779.48 | 12,917.38 |
| 1891 | 112,505.92 | 118,176.89 | 55,621.85 |
| 1901 | 121,060.23 | 141,130.65 | 56,381.16 |
| | | | Surplus or Deficit |
| 1910 | 152,369.08 | 170,591.12 | −18,222.04 |
| 8 months ending June 30, 1911 | 124,617.17 | 118,614.27 | 6,072.90 |
| 12 months ending June 30, 1912 | 176,679.99 | 157,815.87 | 18,864.12 |

*East St Louis.*

| | | | |
|---|---|---|---|
| 12 months 1910 | $ 26,388.07 | $ 22,835.23 | $17,289.84 |
| 8 months 1911 | 8,681.81 | 12,116.83 | 13,854.82 |
| 12 months 1912 | 13,990.66 | 17,133.77 | ..... |

AUDITOR'S REPORT.

| | Receipts | Warrants issued |
|---|---|---|
| July 1, 1911, to Sept. 30, 1912: | | |
| Chicago | $256,565.59 | $197,593.44 |
| East St. Louis | 27,873.48 | 21,368.47 |
| October 1, 1912, to Sept. 30, 1914 | 348,531.34 | 391,840.18 |

Appropriations for the grain inspection department in 1911 and 1913 are shown below:

| | 1913 | | 1911 |
|---|---|---|---|
| *Chicago Office.* | Per annum | Total | Total |
| Inspectors | $45,750 | $ 91,000 | $ 86,500 |
| Clerks and Stenographers | 38,230 | 76,460 | 77,600 |
| Registrar, Cashier, and Auditor | 6,750 | 13,500 | 11,000 |
| Messengers, etc. | 5,160 | 10,320 | 10,320 |
| Samplers and Helpers | 54,840 | 109,680 | 99,900 |
| Appeals Committee | 3,600 | 7,200 | 7,200 |
| Rent and Light | 9,000 | 18,000 | 18,821 |
| Other Expenses | ..... | 38,417 | 27,500 |
| Total | | $364,577 | $338,841 |
| *East St. Louis.* | | | |
| Inspectors | $10,200 | $ 20,400 | $ 20,400 |
| Registrar and Clerks | 3,300 | 6,600 | 6,600 |
| Helpers | 3,240 | 6,480 | 5,610 |
| Rents | ..... | ..... | 1,000 |
| Office Expenses | 1,200 | 2,400 | 2,200 |
| Total | | $ 35,880 | $ 35,810 |

| | | | |
|---|---|---|---|
| *Decatur.* | | | |
| Inspector and Helper | $ 2,520 | $ 5,040 | ..... |
| *Joliet.* | | | |
| Deputy Inspector | 900 | 1,800 | ..... |
| *Kankakee.* | | | |
| Deputy Inspector | 1,200 | 2,400 | ..... |
| Total Grain Inspection Department | | $409,697 | $374,651 |

## V. CORPORATION COMMISSIONS IN OTHER STATES.

Most of the states have provided for the administrative control of corporations by means of a number of separate offices and bureaus, as in Illinois. The registration of new corporations is usually under the Secretary of State. Every state has a banking and insurance office. In most of the larger states, there are separate bank and insurance commissioners; but in a number of the states the functions of one or the other of these offices are attached to one of the older classes of elected state officers,—as the auditor, secretary of state, or state treasurer.

Nearly all of the states have also established one or more boards for the control of railroads and often of other public utilities. Massachusetts had for a time three commissions for different classes of public utilities,—railroads, lighting plants, and telephone and telegraph companies. New York State has two public utility commissions, one for New York City and the other for the remainder of the state. But some twenty states now give a large power of regulation and control over all or most classes of public utilities to a single commission,—as the Railroad Commission of Wisconsin; the Public Utility Commission of Illinois, and the Corporation Commission of Oklahoma.

In Virginia and North Carolina, the public control of corporations of all kinds has been more thoroughly concentrated in the hands of a single corporation commission in each of these states.

*Virginia Corporation Commission.*[3]

The Virginia Corporation Commission was created by the State Constitution of 1902. It consists of three members appointed by the Governor, subject to confirmation by the general assembly in joint session, for terms of six years, one member retiring every second year. The constitution provides that this commission is the department of government for the creation, visitation, supervision, regulation, and control of corporations chartered by or doing business in the state. The constitution further provides, in considerable detail, for the authority of the commission over transportation and transmission companies, including the power to prescribe rates; and for the administrative procedure before the commission and for judicial review of its decisions. By the constitution and statutes, the commission is also made a board of tax assessors for certain classes of transportation and transmission companies.

It is further provided by the Constitution of 1902 that banking and other bureaus may be established within the department of the state corporation commission. In 1906 a bureau of insurance was established under the supervision and control of the corporation com-

[3]American Law Review, vol. 38; 481 (1904). John Hopkins Univ. Studies, vol. 30; 1-199 (1912).

mission; but the commissioner of insurance is elected by the general assembly for a term of four years. This bureau issues licenses and certificates of authority to insurance, guaranty, trust and insurance companies; it receives reports and has power to make examinations. It also receives reports of fires, and makes investigations into the causes of fires.

Since 1907 the corporation commission has received financial statements from state banking institutions. In 1910 the commission was given power to appoint a bank examiner and assistants, who make at least an annual inspection of state banking institutions, and of national banks which are state depositaries.

*North Carolina Corporation Commission.*

This commission is constituted as a court of record of three commissioners, elected for six years, one at each biennial election. It selects its own chairman and appoints a clerk and other assistants. The commission has general supervision over transportation, telegraph and telephone companies, all public and private banks, all loan and trust companies, and all building and loan associations. It has power to prescribe rates of transportation and transmission companies and appoints bank examiners.

Under other acts, the Corporation Commission is also created a board of State Tax Commissioners and a State Board of Equalization, with general supervision of the system of taxation throughout the state, and also assesses corporations for taxation.

## VI. SUMMARY AND RECOMMENDATIONS.

The following table summarizes the present laws as to the chartering, admission and supervision of corporations in Illinois:

| *Class of Corporation* | *Chartered by* | *Supervision by* |
|---|---|---|
| General Corporations | Secretary of State | Secretary of State |
| Banks and Building and Loan Associations | Auditor of Pub. Accts. | Auditor of Pub. Accts. |
| Trust Companies | Secretary of State | Auditor of Pub. Accts. |
| Railroads | Secretary of State | Pub. Utilities Comn. |
| Gas, Elec. Light, etc. | Secretary of State | Pub. Utilities Comn. |
| Corporations not for Profit | Secretary of State | ..... |
| Cooperative Associations | Secretary of State | ..... |
| Educational Institutions | Secretary of State | Governor |
| Free Public Libraries | Secretary of State | Governor |
| Cemetery Associations | Secretary of State | County Court |
| Foreign General Corporations | *Secretary of State | Secretary of State |
| Pawner's Societies | Secretary of State | Auditor of Pub. Accts. |
| Wage Loan Corporations | Secretary of State | Auditor of Pub. Accts. |
| Title Guarantee Companies | Secretary of State | Auditor of Pub. Accts. |
| Insurance Companies — except Assessment Life and Accident | Insurance Supt. | Insurance Supt. |
| Insurance Companies — Assessment Life and Accident | Secretary of State | Insurance Supt. |

*Admitted by.

RECOMMENDATIONS.

1. The granting of charters and the supervision of corporations, of the same class after formation should be entrusted to the same authority.

As a matter of economy, it is obvious that all the records relating to individual corporations and to particular classes of corporations should be housed in the same quarters, saving space and facilitating the work of those wishing to consult the same. Moreover, division of authority necessitates two groups of experts, those who look up the corporations and corporation law at the time of incorporation. and those who are entrusted with the work of supervision after incorporation. It is evident that the work of supervision would become less difficult if in the hands of those who had become familiar with the particular kind of corporation through passing on the original papers—and, furthermore, it is still more evident that those engaged in supervising are the best judges of the desirability and propriety of granting authority to solicit stock subscriptions to a new group

of promoters. For instance, the Insurance Superintendent is in a better position effectively to administer the law relating to the formation of new insurance companies than any other branch of the State government, because of the experience gained in the work of supervision. In other words, experience in supervision is almost, if not quite, necessary in order to properly determine whether a new proposition is in reality, as well as in form, promoted to fulfill a lawful object.

The adoption of this principle would necessitate a revision of the corporation law by transferring the control of incorporation from the Secretary of State's office to the office having supervision in the following cases:

Trust Companies—from Secretary of State to Auditor.

Railroads and Public Utilities—from Secretary of State to Public Utilities Commission.

Title Guarantee Companies—from Secretary of State to Insurance Superintendent.

Pawnes' Societies and Wage Loan Corporations—from Secretary of State to Auditor.

Participation in Certificate of Assessment Life and Accident—from Secretary of State to Insurance Superintendent.

On the other hand, the supervision of educational institutions, free public libraries and cemetery associations, now chartered by the Secretary of State and supervised by the governor and the county courts, should be transferred from the latter authorities to the Secretary of State.

2. All varieties of a general class of corporations should be entrusted to the same authority.

This principle of effective supervision is generally observed—and where not observed is evidently the result of an accident. The supervision of title guarantee companies should evidently be under the Insurance Superintendent, not under the auditor, thus bringing all forms of insurance under that office.

3. The law relating to the formation of corporations, including special classes as well as the general corporation should be revised and codified.

The law relating to corporations is the result of a series of laws passed about the time of the adoption of the present Constitution in 1870. Thus the basis of the insurance law dates from 1869—the general corporation law from 1872—the banking law from 1885; but in addition to the general act in each case there are a considerable number of amendments and additions that have been passed from time to time as occasion has demanded. Some of these are in harmony with the general law; some are not. Revision would not only furnish the opportunity of eliminating inconsistencies, but would make the law simpler and therefore more easily understood by those who are conducting business under its terms.

It has already been noticed that in forming an Illinois corporation the promoters are required generally to submit their proposition to an official examination before soliciting subscriptions to the capital



stock. To this general rule there are some exceptions, the most noticeable being the case of railroads. In the revision the process of formation should be made uniform for all corporations except those that are not incorporated for profit.

4. The granting of charters and the supervision of corporations should be centralized and entrusted to some one general authority or department. Illinois has at the present time the foundation for a most efficient system of corporate supervision. The method of granting charters is not only quite unique, but is founded upon correct principles. Moreover, it is, with few exceptions uniform for all kinds of corporations. In the case of banks, building and loan associations, and insurance companies, the supervision over the incorporation is at the present time fairly efficient. This results from the fact that: (1) The charter granting authorities: viz, the Auditor of Public Accounts and the Insurance Superintendent are responsible for effective supervision after incorporation and (2) each office is equipped with travelling examiners who are in a position to make more than a formal investigation into the character of the proposition which it is proposed to incorporate. The work of the Secretary of State is in this particular far from efficient. This is due to two conditions—(1) the office is not and never has been properly manned to secure effective supervision, and (2) it has been held as a general principle that any body of individuals ought to be allowed to incorporate for any lawful purpose at any time. This theory is the outgrowth of the unfortunate conditions attending the granting of charters by special legislation. Under that system it was assumed that it was incumbent upon the incorporators to show cause why they should be granted a charter, and in too many cases there were charges of fraud and corruption; as a result constitutional provisions against the granting of special charters were adopted in 1848 and 1870. A second result was the development of the theory that any group of men, whether responsible or irresponsible, might apply for a charter under the general incorporation act and be granted the same without question. In the case of corporations formed under the general law, this practice still prevails. In the case of banks, insurance companies, railways and other public utility corporations it is generally recognized that the State through its proper officers has not only the right, but also is under a duty of protecting both the legitimate investors and consumers of the products against fraudulent promotions or uneconomic propositions. Gradually it is coming to be recognized that the State has an indirect if not a direct interest in the formation of general corporations. This theory is recognized in the Illinois law in the provision that any group of men desiring to form a corporation must first obtain permission from the proper authority. The Secretary of State is authorized to see that each new project is formed for a lawful purpose. He is, however, not in a favorable position under the present organization of the office to see that the spirit of the law is complied with in all cases. It of course would add largely to the expense of supervision, but the fees received even at the present time are amply sufficient to provide for an effective supervision during the period of incorporation. The results of the

adoption of such a policy would be: (1) The elimination of most fraudulent promotions before the solicitation of subscriptions to the capital stock began—(2) The restriction of the investment of corporate funds to those fields of business enterprise where there is an opportunity for legitimate industry—(3) The establishment of confidence in the general corporate enterprises, such as exists in the case of national or state banks.

It is hardly necessary to call attention to the enormous waste of capital as a result of fraudulent promotions. The Postmaster General of the United States in his annual report for 1911 estimates the annual loss at over $77,000,000.

Illinois is in a position to become a leader in a movement to prevent a part of this annual waste of capital, by proper supervision of the period of promotion.

It is generally recognized that it is a proper function of the State to prevent the duplication of public utility propositions in communities already supplied. While it is not likely that the State will feel called upon to take similar precautions in general business activity, it is clearly in conformity with the spirit of our corporation act to see to it that only propositions projected for legitimate business activities be authorized to solicit subscriptions from the citizens of the State. And in this connection it would be well to write into the general corporation act the clause of the banking act that requires an established character on the part of the promoter as a prerequisite to the solicitation of funds. Such supervision as would be required to ensure that the promoters be men of established character and the project be at least reasonable in its purpose would mean a large annual saving to the legitimate capital resources of the State.

It is patent to every careful observer that the development of our resources through corporations is hampered and delayed by a feeling on the part of the average man that any investment in corporate stock is like throwing good money into the sea. And in this feeling he is to a certain extent justified. The legal safeguards surrounding the investment in corporate securities are amply sufficient to protect him, when they are enforced. But the fact is that the so-called safeguards are safeguards in form only; the best that the defrauded stockholder can do is to assist the State in placing the corporate criminal in penal confinement for a time. That, however, does not restore the wasted capital.

To repeat, the State of Illinois has in her corporate law a unique opportunity to extend her administrative machinery so that the legitimate investor would be protected and the honest projects would be fostered and developed. Attention at this point may properly be called to the "Blue Sky" legislation of many of our neighboring states. Such legislation ought to be unnecessary and would be unnecessary if proper supervision of the issuance of securities was provided by each state. The justification of state supervision of the issuance of corporate securities is found in the favors granted the corporate stockholders. They are given limited liability and in return for this special favor are expected to issue full paid stock and full



paid only. In too many cases the stock is issued as fully paid when it represents nothing but water. Even worthless securities are foisted upon the public and in turn the public demands blue sky legislation and state approval of the securities offered for sale. However, as in many similar cases, the proper place to begin to reform is at home, by seeing to it that all securities issued by domestic corporations are what they purport to be, viz.: the representatives of real assets, dollar for dollar. After incorporation sufficient supervision should be maintained to see that the law relating to the declaration of dividends out of surplus profit only, is observed. Such supervision would render blue sky legislation entirely unnecessary.

(5) The general department should be organized into divisions, each of which should have supervision under the general direction of the department, of a particular branch of the work. These divisions might very well preserve to a certain extent the present organizations, with the exception that the general control would be combined in one department. As a tentative plan the following may be suggested:

(a) *General Corporations.*
- (1) Incorporation of domestic corporations.
- (2) Admission of foreign corporations.
- (3) Annual reports.

(b) *Banking, Trust Companies, Building and Loan Associations, etc.*
- (1) Incorporation of domestic corporations.
- (2) Admission of foreign corporations.
- (3) Annual reports.
- (4) Examinations.

(c) *Insurance.*
- (1) Incorporation of domestic corporations.
- (2) Admission of foreign corporations.
- (3) Reports.
- (4) Examinations.
- (5) State Fire Marshal investigation.

(d) *Public Utilities.*
- (1) Incorporation of public utilities companies.
- (2) Admission of foreign companies.
- (3) Reports.
- (4) Examinations.
- (5) Rates.
- (6) Service.
- (7) Securities.

It is possible that an organization by functions might prove of advantage; such an organization is outlined below:

(a) *Incorporation.*
- (1) General corporations.
- (2) Banks and trust companies, etc.
- (3) Insurance companies.
- (4) Public utilities companies.

(b) *Admission of Foreign Corporations.*
(Arranged by classes.)

(c) *Reports and Examinations.*
(By classes.)

(d) *Securities.*
- (1) Supervision of issues.
- (2) Deposits—as regulated by law.

(e) *Rates and Services.*
- (1) Public Utilities.
- (2) Insurance Companies.

(6) The following alternative plans are suggested for consideration in organizing the proposed department:

(a) A Corporation Commission of five members, taking the place of the Public Utilities Commission, to exercise all the powers of the Public Utilities Commission, and in addition to have supervision over the commissioners of general corporations, banks and insurance. The supervisory powers should include power to approve and prescribe forms for accounts and reports, to approve and issue general regulations, to review or decide appeals from decisions of the division superintendents, and to order specific investigation.

(b) A Corporation Commission of five members, one to be chairman, one commissioner of general corporations, one banking commissioner, one insurance commissioner, and one public utilities commissioner, the Commission as a body to exercise supervisory powers over the individual commissioners. Two or more deputy public utility commissioners to conduct investigations and hearings, and to act with the public utility commissioner as a board in making orders and decisions.

(c) A Corporation Commission of three members, one to be chairman, one banking and insurance commissioner and one public utilities commissioner, to exercise supervisory powers as in (b). The public utility commissioner to have three deputies, to conduct investigations and hearings,—orders and decisions to be made by the chairman of the central commission, the public utilities commissoner and deputies acting as a board. The chairman to have direct charge of the division of general corporations.

(d) A Secretary of Corporations as head of the department, and to act as chairman of (1) the corporation commission, to include the commissioners of general corporations, banks and insurance, and (2) the public utilities commission, to include two or four members in addition to the secretary.

(e) The Chairman of the Public Utilities Commission to be designated as head of the department, with specified powers of supervision over commissioners of general corporations, banks and insurance, leaving the public utilities commission with its present organization and powers.

22793

END OF
TITLE